

The Canadian Chartered Accountant

OFFICIAL ORGAN OF

THE DOMINION ASSOCIATION OF CHARTERED ACCOUNTANTS

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Editorial Comment

Our Annual Meeting was one of the most successful in the history of the Association, both in respect of the number attending, which was just slightly under that at the previous Toronto meeting in 1936, and in the degree of interest shown in the serious problems which face the profession today. These problems, naturally, arise from the war and the conditions which may be expected to follow—the current shortage of personnel, the possibility of a reverse in this situation after the war, and the relation of the auditor or public accountant with his client on the one hand and with the government on the other hand, which latter question must inevitably be to the fore in any period of such rapid socialization as we are now experiencing. As this issue of THE CANADIAN CHARTERED ACCOUNTANT goes to press just after the meeting, it is not possible to present detailed material from the meeting, other than the new list of officers and the president's address, until our October issue.

*Taxation of
Annuities*

The Exchequer Court judgment on 5th August, to the effect that legacies payable exclusively from the capital of an estate, even when they are paid in the form of annuities, are not taxable income, should modify and may even lead to the disposal of one of the grossest inequities of the income tax levy in Canada. Due to the effort of the Department of National Revenue in recent years to assess all moneys received in the form of annuities, regardless of how or where the payment originated, or to what degree each one represented capital and income respectively, we had the absurdity of inheritance tax on a legacy when it was assessed for succession duty purposes, and later an income tax when it was actually transmitted, thus treating the very same money as both capital and income. We had distortion of wills and of insurance policies into strange shapes and sizes to escape what was admittedly double taxation. The Department of Labour was, and still is, urging the purchase of Canadian government annuities in spite of the fact that every dollar of principal paid in the purchase of such annuities immediately becomes subject to taxation as income when it is paid back to the beneficiary. Life insurance companies attempted to get around the difficulty by selling not one annuity but two sets of payments, one of which returned the capital and the other of which provided as income the excess, if any, over the amount of principal paid in. Such a contrivance should not be necessary under any law or system of taxation. Admittedly, the subdivision of an annuity into its schedules of principal and interest respectively adds to the already grave complications of income tax assessment, but to treat the whole as taxable income was a crude and unjust procedure. It is to be hoped that this matter will now be fully adjusted.

*A Post-war
Suggestion*

One thing we could do with, after this war, is a simplification of products. In the past there have been too many rival brands, and the force of competition did not seem to be able to rectify this evil. In electric refrigerators, for instance, there were at least a dozen makes on our Canadian market, with several sizes or finishes in each, which gave the consumer an unnecessary and sometimes confusing choice. This is particularly true where the brands represent

a variety of adaptations of identical basic patents covering the essential works. In automobiles there at one time were about thirty distinct makes on the Canadian market; through elimination and amalgamation these have boiled themselves down to about twenty names and only about ten companies, and, through this and other forces, the value furnished to the consumer was enormously increased. The gas and electric stove industry suffered from a profusion of colours and designs as well as names; it even happened that when a fussy housewife demanded a special colour or finish, some manufacturer would take a chance on turning out a small number just to fill the order, and thereby find himself with a new item for his catalogue without any adequate volume in sight.

Simplification is part of the government's program of wartime control. Designs and finishes in nearly every industry have been restricted, containers have been reduced in number and in style. In this program, coercion has effected what competition had failed to eliminate and what co-operation had failed to secure. But force is too dangerous an element to have in our economic life when there is no emergency. We want no system which will restrict our variety of choice, or the rights of the producers to fill it. Perhaps a better industrial organization, through syndicates or trade associations, could achieve it. For that purpose, the anti-trust laws will have to be modified. A government which has enforced simplification and co-ordination can hardly condemn its voluntary continuation, though it is entitled to sit in with the group in order to see that the power is not developed to the injury of the public.

Our reconstruction thinkers might do well to select a few of the things which we have tried and of which we approve during the war, as planks in the post-war program, rather than engage in endless arguments on generalities, because until we know what nations will survive, and what kinds of government will be in power, it is almost impossible to draft the general lines of an economic program. In Britain, the United States and Canada, and all other countries where governments are elected by popular vote, the people will decide the big issue of private enterprise versus state socialism. All that any economic committee will do is provide plans whereby the chosen policy may be implemented.

*Thoughts on the
Coming War Loan*

With September we enter the autumn, and one of the certainties of this autumn is the flotation of another large Dominion government loan. Old standards of public borrowing and debt have gone by the board, and every powerful government seems to have succeeded in solving the financial equation in terms of its economic elements of raw materials and labour. That is, no matter what proportion of the total output the government wants to appropriate, be it twenty-five per cent, or fifty per cent, or even higher, the tax structure, the borrowing procedure, and the other financial machinery can bring it about. But when the procedure and its effects are viewed more closely, the situation is seen to be far from happy. The straightened circumstances in which people are compelled to live is the least of the evils, because that is bound to result when one-half or more of our peak output is bought up for war purposes. The regrettable part is the growing legacy of debt, and the price inflation by means of which the fruits of thrift are dissolved.

By assuming that interest rates can be kept very low, while our national income is maintained at a peak, it is easy to show arithmetically that the interest burden is still relatively light; at present we have an estimated national income of \$8,000 millions, and an interest charge of about \$300 millions or less than four per cent. Those assumptions are unwise, however. In fact this level of national "income" is based on deficit financing and could be maintained only by its prolongation or else by a corresponding depreciation of the dollar, either one of which amounts to an annual assessment on existing capital and a continued demand for unrewarded thrift. Again, we might go to the extreme suggestion that in the event of a very long and still more costly war the national debt might amount to as much as our total national wealth, which according to latest computation is probably in the neighbourhood of \$30,000 millions. Then the interest charge, continuing the three per cent assumption, would still be just a shade over ten per cent of the present rate of income. Something like the same result might be attained if a national socialist government came into power and expropriated all the capital goods of the country, by the

issue of bonds therefor. Since we can hardly count the same wealth twice, and are not likely to allow two incomes from it, perhaps it is intended to hammer down the reward of all the accumulated thrift and investment in Canada to a meagre ten per cent of the national income. Such an objective is apt to defeat its own purpose, and the weakness of the thrift appeal is already apparent. We are running up a plethora of tax exemptions, cost of living bonuses and wage increases, all intended to inspire the effort of the worker, but no incentive other than a minimum cash return with a diminishing purchasing power is being placed before the investor. The loan campaign emphasis has been on duty, but there is a tendency for the average worker to view the loan as just another assessment, thus damming up a potential volume of selling which may at some stage be disastrous. The best ways to rectify this would appear to be either an effective plan for price stability, or else a scheme through which the purchasing power of bondholders can be maintained.

Officers Elected at Annual Meeting

As a result of the election held at the annual meeting of The Dominion Association of Chartered Accountants in Toronto, 16th-18th August 1943, the following are the officers of the Association for the ensuing year:

President, H. G. Norman, Montreal; Vice-presidents, F. Johnson, Winnipeg, and C. F. Elderkin, Montreal; Immediate Past President, K. A. Mapp, Toronto; Chairman Finance Committee, F. C. Hurst, Toronto; Chairman, Legislation Committee, H. C. Hayes, Montreal; Additional Member Executive Committee, R. C. Field, Victoria; Secretary-Treasurer, W. A. McKague, Toronto.



HARRY G. NORMAN

President, 1943-44

Other committee chairmen were appointed as follows: Accounting Research, K. J. Morrison, Calgary; Accounting Terminology, J. Parton, Winnipeg; Education and Examinations, W. G. H. Jephcott, Toronto; Magazine and Publications, R. F. B. Taylor, Toronto; National Selective Service, L. N. Buzzell, Montreal; Post-war Planning, A. B. Shepard, Toronto; War Purposes, K. W. Dalglish, Montreal.

H. Glover and N. B. McLeod were re-appointed auditors.

Dominion President's Address

By Kris A. Mapp, F.C.A.

President, The Dominion Association of Chartered Accountants

(Address at annual meeting of the Association, 16-18th August 1943)

IT is customary at the first general session of our annual meetings for the president to present a report on the activities of the Dominion Association. It is with pleasure that I do so this afternoon, but firstly on behalf of the executive committee and the members of Council I wish to extend to you a very warm welcome to this the forty-first annual meeting of our association and to express the hope that it will prove a profitable one. Our host this year is the Institute of Chartered Accountants of Ontario and I cannot let this opportunity pass without expressing to Mr. Grant, the president, and to the members of the Ontario council and also to Mr. Bruce Taylor and the members of his committee on arrangements, our sincere thanks for the splendid arrangements they have made for our enjoyment. We indeed owe them a deep debt of gratitude.

It is my sad duty to record at this time the death of twenty-eight of our members during the past year, seven of whom were serving with the armed forces and have given their lives for their country. Their passing is a distinct loss to our profession and we again express our deep sympathy to their relatives and loved ones. As I read their names, I will ask you to kindly stand with me and remain standing in a moment of silence in tribute to their memory.

Arthur William Adams, Toronto
Henry Aitken, Montreal
Sergeant R. E. V. Anderson, Montreal
William Henry Penny Anderson, London, England
George Percy Blythe, San Francisco
Ernest Bell Butler, Detroit
Austin Hope Carr, Toronto
George de Hertel Cunningham, Ottawa
Robert James Dilworth, Toronto
Lieutenant G. F. Duncan, Montreal
John D. Forsyth, Vancouver
Lieutenant William S. Fry, Montreal
Thomas Archibald Getty, Moose Jaw
Georges Gonthier, Montreal
James Grant, Winnipeg
Flying Officer Reginald Lionel Reddy Hepburn, Toronto
Frederick Corson Holden, Victoria
Douglas Keith, Calgary

THE CANADIAN CHARTERED ACCOUNTANT

Charles Alfred Legendre, Montreal
George Ling, Toronto
Herbert Alfred Malcolmson, Toronto
Edwin Peel, Montreal
Pilot Officer John Stanley Renouf, Cupar, Saskatchewan
(Missing and presumed dead)
William Robertson, Edmonton
Flight Lieutenant Ernest B. Stapleford, Regina
Sergeant John Marne Storey, Toronto
Charles Edgar Walker, Kingston
Richard A. Wyatt-Jones, Montreal.

I think it fitting at this time that I should make reference to our late secretary-treasurer who passed away last October. For twelve years, Mr. Carr had served the Dominion Association faithfully and well. Much of the credit for the forward and constructive steps taken by the Dominion Association must be given to him. He was respected and admired by not only our own members right across the Dominion, but let me read to you a tribute paid to him by the American Institute of Accountants—

“At its meeting on November 6th, the executive committee of the American Institute of Accountants adopted the following resolution:

“RESOLVED, The executive committee of the American Institute of Accountants has learned with the deepest regret of the death of A. H. Carr, who as secretary of The Dominion Association of Chartered Accountants had made a substantial contribution to the development of cordial relations between the accountancy profession in Canada and in the United States. Mr. Carr, as a frequent visitor at annual meetings of the American Institute, and as a gracious host to officers of the American Institute at meetings of the Dominion Association, had won the esteem and regard of many members of the profession in the United States.

“The executive committee is also aware of his loyal and untiring efforts as secretary of the Dominion Association and editor of the Canadian Chartered Accountant, to the advancement of his profession in his own country, and realizes the extent of the loss which the Dominion Association has suffered in losing him. The executive committee hereby extends its sincere sympathy to Mr. Carr's family and his professional associates.”

Yours sincerely,
(signed) John L. Carey
Secretary.

In Mr. Carr's death, we lost a fine gentleman, one who served our profession faithfully and well and one whom we surely miss.

We have been fortunate in securing the services of Mr. W. A. McKague as secretary-treasurer. Mr. McKague brings to the Association a wide experience in financial, educational, and secretarial work. He is a graduate and M.A. of the University of Toronto and has earned for himself an enviable reputation in editorial work. He has assumed his new post with our best wishes and I am confident that his services will prove highly acceptable to our members.

Members in Armed Forces

Next I believe you would like me to record the fact that 370 of our members and 847 of our students from every province in Canada are on active service with the armed forces. This is a record of which we may be justly proud and I am sure we all join in the sincere hope that the day may not be far distant when they will be able to return to their homes and their civilian pursuits.

When speaking to our members about the Dominion association, I always stress the fact that it is your association. Every member in good standing of a provincial institute is automatically a member of the Dominion Association. So if you hear it spoken of in laudable terms, then you are fully entitled to share in the credit and should perchance the voice of the critic reach your ears, then perhaps a share of the responsibility is yours.

It is unnecessary for me to dwell on the constitution of the association other than to remind you that the members of the Council are elected by the provincial institutes and the council at each annual meeting elects the officers and the chairmen of committees for the ensuing year. The committees are:

Finance Committee, Legislation Committee, War Purposes Committee, Committee on Education and Examinations, Magazine and Publications Committee, National Selective Service Committee, Committee on Accounting Research, Committee on Public Relations, Committee on Terminology.

I would like to pay tribute to the chairmen and members of these committees, all extremely busy men, for their

untiring efforts. Nor would I forget the work of the provincial committees, the results of which are in many instances passed on to the Dominion association. During the past year I have spoken to groups of our members in Vancouver, Calgary, Winnipeg, Toronto, Montreal, Quebec and Halifax and thereby had a unique opportunity of assessing not only the splendid spirit that exists amongst our members but also their desire and enthusiasm to forward the interests of our association.

Time will not permit me to refer to all of these committees but a brief reference to two or three is perhaps fitting.

The association's finances come under the eagle eye of Mr. Hurst and when he presents the financial statement I am sure you will all acclaim him a splendid watch dog of the treasury.

Legislation Committee

The legislation committee, under the chairmanship of Mr. Elderkin, is an extremely busy one. Tax legislation, orders-in-council with regard to wages, salaries and other matters, and rulings of the tax department are carefully considered and when necessary, appropriate suggestions are made to the Departments concerned. Each year, the provincial institutes are asked to submit any recommendations they may have for amendments to the Income War Tax Act and The Excess Profits Tax Act. The suggestions received are almost entirely constructive ideas for removing inequities under the acts. They are carefully reviewed by the legislation committee and then submitted to the minister of finance who, on more than one occasion, has expressed his thanks for the interest taken by the members of our Association. In a message of greeting to the annual meeting in Calgary last August, the Minister said—"I cannot help thinking of the cordial relations which have existed between your association and the government during recent years and of the helpful suggestions which your members have unselfishly made from time to time in respect of difficult and complicated taxation measures".

Naturally, the "Pay-as-you-Earn" plan for individual income taxes was not overlooked and a carefully prepared memorandum, credit for which must be given to the taxation committee of the Ontario institute, was submitted to

the minister. It is gratifying to note that the latest amendments to the income and excess profits tax acts implemented in whole or in part a substantial portion of the recommendations made by our association.

The story of the T-2 Questionnaire has already been told and published in THE CANADIAN CHARTERED ACCOUNTANT. Suffice then to say, for purposes of record, that the legislation committee and the war purposes committee took this matter under their wing and have also been asked by the income tax department to assist in any revision which it may be necessary to make this year.

War Purposes Committee

The war purposes committee is ably presided over by Mr. Dalglish and although a great deal of his time is taken up with the board of referees under The Excess Profits Tax Act, Mr. Dalglish still takes as keen an interest in the affairs of the Dominion association as he did in the years he was on the executive committee and when he was the president.

The function of the war purposes committee is essentially to give consideration to and deal with problems affecting the profession of the chartered accountant arising out of wartime conditions. In particular, the committee has devoted most of its thought to the manner in which the profession can best serve the government and the public despite greatly depleted staffs and the call to undertake many added duties and responsibilities. In this connection, whenever an opportunity has presented itself the committee has advocated that the best interests of the Dominion government and of the public would be served by the practising firms of accountants undertaking certain accounting and auditing functions which would otherwise be carried out by employees of Government departments.

In the report of the committee last year mention was made of the arrangement whereby the minister of munitions and supply may call upon the auditors of a company to investigate and report upon the costs of the company relating to the performance of sub-contracts. During the year it is believed that quite a number of practising firms carried out work of this nature and there are indications that the call upon the profession in this regard may be greatly extended.

National Selective Service

In addition to the foregoing, the war purposes committee initiated discussions with the director of national selective service in an endeavour to formulate some scheme whereby a uniform approach could be given to the matter of deferment by all regional boards, to which I shall now refer.

By arrangement with the director of National Selective Service, a special committee of the association was formed to review applications for deferment of military service of our members. These applications are firstly considered by the provincial institutes and then by the Dominion committee. In this manner, the Dominion committee is able to satisfy itself that the decisions of provincial committees are made in the light of a uniform approach to the matter. Should the committee, in the light of all the circumstances and also having regard to the pressing needs of the government for men in the armed forces, decide that deferment of military training is advisable, then the recommendations are sent forward to the provincial institutes for submission to the regional boards. In view of the serious nature of the decisions to be reached, and the impartiality that must be applied to all such decisions, the Dominion association could not have done better than ask Mr. Harry Norman, who for many years has taken an active part in the affairs of our Association, to act as chairman of the committee, which he kindly consented to do.

After the arrangements I have just referred to were put into operation, suggestions were made that all accountants, not only chartered accountants, should be placed under the Wartime Bureau of Technical Personnel. In this connection Mr. Norman and I interviewed the minister of labour and his deputy, and on June 28, 1943, a meeting of representatives of our Association, the Society of Cost Accountants, the C.P.A.'s and the C.G.A.'s, was called by the department of labour at which it was stated by the director of the Wartime Bureau of Technical Personnel that he had been instructed to prepare a submission for his minister to have all accountants registered with the bureau. The submission was carefully reviewed and your representatives assured the department that the Dominion association would be glad to give any assistance possible should the government decide

to act in this manner. However, I have to report that no further news in regard to the proposal has come to hand.

Education and Examinations

The committee on education and examinations with Mr. Jephcott as chairman and Mr. Johnson and Mr. Ballantyne as chairmen of the board of examiners-in-chief, have done and are doing a splendid job. Their task is by no means a spasmodic one, for no sooner are the examinations of one year completed than the machinery is set in motion for the next, and for two years semi-annual examinations were held to accommodate those students who were subject to military service. The Dominion association and the provincial institutes took a great forward step in 1938 when, at a conference in Winnipeg, the policy of uniform examinations throughout the Dominion was established. You will all appreciate that when provincial bodies from all parts of the Dominion get together, there are bound to be, to say the least, some differences of opinion. That is inevitable and I can assure you we had them. It is only natural to regard the new with suspicion and to cling to the old and tried, but the delegates to the conference approached it with two thoughts uppermost in mind, firstly, that what we were seeking to introduce was something worth while and, secondly, nothing should interfere with its accomplishment. With this unanimity of thought and purpose, it was not difficult to overcome the obstacles and difficulties, and so there was born and cradled at this meeting our present system of uniform examinations whereby our students throughout the Dominion write the same examinations. Each successive year has brought improvements and refinements and for the past two years our examinations have been translated into French for the benefit of our students in the province of Quebec. I believe our association is unique in this respect. After the war is over, we hope to devote our attention to a more uniform policy of education whereby the best features in each province will be made available to all.

The Magazine

May I dwell for a moment now on the work of the magazine and publications committee. Any words of mine would fail to adequately express our deep appreciation of the service rendered to our profession by the members of the editorial committee and the provincial representatives. This

committee is composed of Mr. Herington as chairman, and Mr. Glassco and Mr. Young, and upon them, in collaboration with the editor, rests the responsibility of seeing to it that the material for THE CANADIAN CHARTERED ACCOUNTANT reaches the printer by a specified date every month. What a responsibility! And I am going to ask the question, a very pertinent one, does the magazine receive the support of our members in the manner it should? I leave the question for you individually to answer but in your consideration of it, let me give you one startling fact. Our present membership is something over 2,600 and yet out of this great body of able men, last year only 27 submitted articles for publication in the magazine. Well might we ask ourselves in this connection "Are we a live profession?"

The chairman of the committee, in his report to the annual meeting last year, stated that a review of the issues of the past few years reveals a growing dependence for material on sources outside the profession—truly a sad admission to have to make. Many of our members occupy important posts in government, industry and finance, those in public practice have a unique opportunity of studying new problems brought about by ever changing conditions in the commercial life of this country, and to these may be added our younger members many of whom hold degrees from the universities and have built the foundation for great accomplishments. What greater opportunity could then be afforded than the pages of our magazine for making available to all our members and a growing number of general subscribers their thoughts and advancing ideas? I leave the question with you.

Secretary's Office

War activities, in their various aspects throughout the Dominion, have placed increased responsibilities upon members of our profession. The office of the secretary-treasurer endeavoured to keep abreast of the changes in government regulations that were of interest to members. These changes were many, with the result that considerable reference material on legal decisions, income tax rulings and amendments of Dominion and provincial tax statutes was sent to our members in the past year. You will all appreciate the fact that the cost of printing and distributing useful information to our members can readily run into large

figures and that it was therefore necessary to exercise care in the choice of what was to be distributed. I trust the material sent to our members has been helpful and beneficial.

The Future

So much then for the present, but what do we see as we peer through the archways of the future? I realize full well that when one enters the realm of prediction one is on dangerous ground but nevertheless I believe it our duty to give some consideration to the morrow, to the new era, to the type of world in which we may find ourselves living when victory is achieved, and the part we will play therein. Perhaps the question could easily be disposed of by reminding you of the increase in our membership since the first great war. At that time, we had 530 members and today we have over 2,600—undoubtedly a sign of great progress—but we must not rest on our laurels, and therefore I think the question deserves some closer analysis.

Today we are living in a period of destruction of life and property and our all-absorbing intent at the moment is to crush once and for all the oppressor nations which set out to conquer and subjugate the whole world. Force must be met with force and though the cost is high and will be still higher, the enemy will eventually be brought to a realization that an entire disregard of all decent laws can never pay. But despite the re-current malady of war, progress is still immortal and I believe we will emerge from this conflict with a new understanding of our possibilities.

Instead of producing to destroy, we will produce to build and maintain, and there will be a period of great activity in industry, agriculture and commerce. Slums to be emptied and cheaper and better houses to be built, more efficient motor cars to catch up on a production that has been temporarily stopped, railway cars of lighter and stronger metals to replace those prematurely put out of commission by excessive use, radios, television, household equipment, cheap aeroplanes, better diets; these are only a mere handful of the outlets for the new ideas and the new materials which have been developed as a result of this war.

Our Obligation to Students

Where then do we fit into this new future which is now being charted? May I say firstly that we will have a

great responsibility to our members and students who are serving with the armed forces and who have declared their willingness to make the supreme sacrifice for their King and Country. That responsibility we must not and will not shirk. Already important steps have been taken by some of the provincial institutes for the re-establishment of our members and students when they return.

Let me say that gone are the days long since when we were an aggregation of checkers and adders and we have proved the worth of our preparatory training, education and resourcefulness to meet the situations into which we have been thrust. Our policy of education, I regard as all important, for we have by no means reached the apex of accomplishment. The situations we have been called upon to face in the past pale into insignificance compared with those of the future. I believe that we must be ever vigilant as to those we accept as our students and having exercised this care, not only must we stimulate them to the top of their capacity in technical education, but perhaps more important, we must instil in their minds the value of careful thinking and sound judgment.

At an address I gave in Vancouver a few years ago I said "There is another aspect of student training, that of development of sound judgment. Proficiency in accounting work is largely a matter of experience and judgment; the underlying theory of the science is not particularly profound. The test comes when we attempt to apply the general fundamentals to the infinitely varied and complex situations found in the world of commerce. Factual information and accuracy in its procurement are essential, but its value is submerged unless with it is synchronized the development and training of the judgment. How best, then, can this be accomplished? The answer lies, I am satisfied, in challenging our students to think for themselves. With the excellent facilities made available to them for acquiring knowledge, it perhaps becomes easy for our students to accept facts without any attempt at analysis; but if they do so, they are attaching no importance to the demands that will be made upon them in professional life for careful thinking and sound judgment under ever changing conditions. If, then, we can emphasize the necessity for careful analysis and thought in technical education, we have paved the way for the exercise of sound judgment in business. But

our responsibility does not rest there. We must impress upon their minds that good guessing can never take the place of systematic and deliberate reasoning. We must make them realize that the solution of business problems not only calls for an orderly marshalling of facts but, what is equally important, careful analysis and logical reasoning from such facts, the formation and establishing of effective conclusions and the exercise of sound judgment. If we accomplish nothing else, we shall have accomplished much if we succeed in teaching our students to think."

I believe that some of my friends think I attach too much importance to the matter of education and training but I cannot forget, nor would I forget, that the student of today is the chartered accountant of tomorrow and, as such, he will play his part in influencing the public to either give or withhold its confidence, its respect, its stamp of approval. And so if what I said in 1938 was true, how much more so is it today and in the days of great expansion to come, and as important as the work of the committee on education and examination has been in the past, still more important will it be in the future.

Responsibility to Our Members

We also have an important responsibility to our members. I referred a moment ago to a committee of the Dominion association known as the committee on accounting research. We visualized an important sphere of usefulness for this committee but unfortunately its activities have been somewhat curtailed on account of the war and the shortage of manpower.

In the American Institute of Accountants, there are two such committees, one on auditing procedure and one on accounting research, and the members of these committees are men who stand very high in the profession in the United States. I have some knowledge of the tremendous amount of time they give to meet an ever increasing demand for guidance and direction in coping with accounting and auditing problems in the United States. They have made pronouncements and issued releases on many important matters and while I am quite willing to admit that practice in the United States is somewhat different from this country, yet I cannot bring myself to admitting that all the problems are confined to our good friends south of the border.

The increasing size of public companies, which tend to become owned by a large number of small shareholders and which are a major factor in the nation's economy, makes it imperative that there should be a better understanding of the financial conditions and financial results of such companies. The lack of knowledge concerning the reasons for the historical conventions in accountancy and the misunderstanding regarding the scope of auditing have brought about a situation in which, it is suggested, the public at large have become confused. Such a situation leads to suspicion and distrust and is then often followed, as we have seen in the United States, by the adoption of a great number of rules and regulations, many of which might not have been necessary if it had been made possible in the first place for the public to understand more from the traditional form of financial statements. I believe that management of industry would welcome the disappearance of many of the conventions and the adoption of a set of financial statements that would be more intelligible to the public at large.

Post-war Planning

And so in Canada, we must be ready to meet the challenge. We must have an active committee to deal with these matters and I believe such a committee would produce much of practical value to the profession and enhance its prestige. Its work would also carry a larger significance as proof that the accountancy profession has accepted its responsibility to assume leadership in expressing the best accounting thought on questions of great importance to the business and financial community.

By all means, too, let us play our part in the important plans now being laid for post-war reconstruction. There are many problems which must be faced today; they cannot be postponed until the last gun has fired or the last bomb has dropped. Some of these problems are essentially of a domestic character, others affect countries with which Canada is closely related economically and still others are international.

Employment, education, retirement and sickness allowances, conservation and utilization of our natural resources, publicly financed construction projects, relaxation of war-time controls, foreign trade, the adaptation of industry to peacetime production; these are some of the problems to

which we may usefully devote our attention. I am not one who believes that the solution of the problems of reconstruction is the sole responsibility of the government. I would much rather like to think that every citizen in this Canada of ours has a part to play in varying degree. I would much rather incline to the view that every member of our profession has a contribution to make and with this thought in mind, there has been formed within our association and the provincial institutes an advisory committee on post-war problems. Many post-war plans are now being released to the public but it is becoming increasingly apparent that no one group, however sincere or capable, will be in a position to present all the aspects of any one plan. With this thought in mind, I believe that as a professional body of accountants we should take active leadership in preparing recommendations in regard to the post-war aspect of such problems as the Canadian taxation structure, including the Dominion, provincial and municipal fields, the revision of the companies acts and the presentation of financial statements. These matters will be carefully studied and at the appropriate time representations will be made to the proper authorities. This is an important undertaking but if every member accepts his share of the responsibility, we will help to establish a nation-wide consciousness of the contribution we must all make in our various capacities if this country of ours, if this world is to be made a better, a safer, a happier place to live in.

But before this happier day dawns, and with this I finish, there must be a complete military defeat of our enemies. The emergency of war has undoubtedly dissipated innumerable inertias, but never let us forget that—Inertia caused us to stand idly by while the Japs overran Manchuria and China—Inertia permitted Mussolini to pillage Ethiopia—Inertia caused us to allow Hitler to overthrow Austria and Czechoslovakia—Inertia caused the United Nations to be practically unarmed when brought face to face with Hitler in 1939—and if we are not ever on guard, inertia will again rear its ugly head when the time comes to sit around the peace table. And so I say, before victory is in sight and before the final battle is won we will all have to work harder, we will all have to make more sacrifices and we will all have to share and bear greater burdens. And I am satisfied that as a united group this afternoon, we will continue to

dedicate our very best efforts to the successful prosecution and termination of the deadly struggle in which we are all engaged and that as a professional body, for which I am honoured and privileged to speak, we will place our services at the disposal of the government to be used in a manner that will best serve the interests of our country, our worthy and distinguished allies and our Empire.

Addresses at Quebec Society's Annual Meeting

Remarks of Alfred Smibert, retiring president of the Quebec Society:

A year ago I was honoured by this Society electing me its president. At that time we were all deeply concerned about world affairs, with the war uppermost in our minds. The outlook was not encouraging, but recently the tide has turned in favour of the allies and the psychological effect has been to urge us on to finish the job. We must remember, however, that those who are in the best position to know have warned us that the road to victory is still long and arduous, that we must never for a moment relax in our effort to see the conflict to a victorious conclusion.

The affairs of our individual businesses are secondary to winning the war and most of us I am sure have already had that brought home to us in no uncertain fashion. We are still faced with the question of "what can we do to help our country and empire". Our profession has done and is doing a great deal and I venture to say without fear of contradiction there is no other profession in this country which has contributed more towards helping in the war effort whether it be in the fighting services, departments of the government itself or in essential industries with all the complexities of the times that exist in each of the latter.

The way has not been easy during the past year for anyone. Our government, faced with the ever-increasing shortage of technically trained help, has again found it necessary to call upon our profession to help out; for example, the Department of Munitions and Supply has asked

that we assist them in the checking of the costs of war contracts, and more recently the Minister of Finance through the commissioner of income tax has found it necessary to practically conscript us for the purpose of assisting the tax department. I refer of course to the T.2 Questionnaire. I am informed that it is the hope of the commissioner that a very large proportion of the visits formerly made by his inspection staff will be eliminated as a result of our efforts in this respect. These calls for help have been made at a time when most of our offices had already lost a very large part of our trained and experienced staff; obviously the load must fall upon those who are left to carry on, for new and experienced help is no longer available to us. It is earnestly hoped that all government departments concerned will give us their consideration and be inclined towards tolerance.

At this point I would like to refer to what was said a year ago by Mr. W. H. Campbell, my immediate predecessor in office, when he referred to the matter of encouraging young ladies to take up the profession. Quite a number have registered as students during the past twelve months but many more are still needed to help fill in the gaps. Many of us have found them particularly helpful, exhibiting a keen and intelligent interest in their work. This Society still leads all provinces in the number of lady members. We have five lady members and twenty-three registered as students.

I have spoken of the many calls made upon our members and we must be prepared to face still more, doing all in our power without thought of our personal situation. We are going to win this war but only if we all pull our weight and are prepared to make such sacrifices as are demanded of us. As a profession we have not asked for any favours or special consideration. It is inconceivable that we can lay ourselves open to a suggestion from those of our young and aspiring members who have answered the call of their King and Country that we are not prepared to suffer inconvenience and hardship however great it may be.

When I accepted the responsibility as president a year ago I realized there was much to be done and I stated that with the assistance of such an excellent council I felt confident that much could be accomplished. The annual

report in your hands discloses in a relatively small way that much has been accomplished through the untiring efforts of your council, notwithstanding the heavy demands made upon them in their own personal practice; they have given themselves unstintingly to the affairs of the Society, its members and students. Such loyal and earnest service has been a great help to me and I take this opportunity of thanking Mr. C. F. Elderkin who held the office of first vice-president, Mr. Harry C. Hayes as second vice-president, and Colonel P. F. Seymour the secretary-treasurer, and all the members of council for the excellent work they have done. It is a great source of satisfaction and pleasure to me to see such time and effort given by all in the discharge of their duties.

The Society is to be congratulated on its selection of executive officers for the coming year. Mr. Frank Gates has kindly consented to act as secretary-treasurer. He is a former member of council and rendered conspicuous and valuable service as chairman of the committee which undertook the work of revising our charter, by-laws and the rules of professional conduct. I can assure you this was a prodigious task, requiring long and careful study but he, with all of us, had the satisfaction of seeing something accomplished and something well done. The duties of his new office are many but we know they are in competent hands. As second vice-president we are fortunate in having Colonel Fred Seymour who vacates the office of secretary-treasurer in favour of Mr. Gates. Colonel Seymour has a wealth of knowledge concerning the affairs of this Society that makes him particularly well fitted for his new office. He is our delegate on the Examining Board of McGill University and a member of the Dominion Board of Examiners-in-Chief; his knowledge of educational problems through his long association with McGill will result in the duties attached to his office being well taken care of.

Mr. Harrison C. Hayes takes office as first vice-president, having served as second vice-president during the year. Mr. Hayes has always taken a keen interest in public affairs and the affairs of this Society, and his advice and counsel during his term of office have been most helpful to the executive committee.

I would now like to express my sincere appreciation for the honour of presiding over the affairs of this Society

during the past year. It has taken a great deal of my time but the experience has been a source of pleasure also and if I have been able to contribute any service to the Society and to the profession then that is ample recompense for my efforts.

I now come to the pleasant duty of vacating the chair in favour of the new president, Mr. Clayton F. Elderkin. Mr. Elderkin is very well known to you all. Need I say how very fortunate we are in having a man of Mr. Elderkin's knowledge, ability and interest in the profession. It has always been a mystery to me how he could find so much time to devote to the affairs not only of this Society but others too. I shall only outline a few of his duties in the past. He has served as chairman of the membership committee, then as secretary-treasurer. He was charged with the duty of negotiating an agreement with l'Ecole Superieure in Quebec, a new agreement with McGill University, as well as all matters in recent years concerning the tuition of students. For the past two years he has been chairman of the legislation committee of The Dominion Association of Chartered Accountants, a position that has demanded much of his time.

The recent brochure containing information for "Prospective Candidates as to Membership, Courses of Instruction and Examination", copies of which were recently sent to all members, is entirely the work of Mr. Elderkin.

Mr. Elderkin, it gives me much pleasure to welcome you to the presidency of this Society. I sincerely hope that your term of office will be as happy and fruitful as mine has been.

New President's Remarks

Mr. Elderkin spoke as follows:

I am very thankful to you, Mr. Smibert, for your exceedingly kind remarks and I wish to assure you on behalf of all of the members of council that it has been a great pleasure to work under your chairmanship, during the past year. As incoming president, I am very pleased that the authors of our by-laws saw fit to ensure that the immediate past president continues on council for another year.

I am deeply grateful to the members of the Society for the honour which has been conferred upon me. As I am now commencing my seventh consecutive year as a mem-

ber of council, I am keenly aware of the importance of the duties and responsibilities which accompany the office of president of this Society, and I am very pleased that I am to be surrounded with a council of such excellent calibre and ability. From my experience with those who have served during the past year and the newly elected members, I am confident that they will render excellent service to the Society.

It is, of course, the duty of every member of this profession to assist the war effort in every way possible and we can be justly proud of the manner in which many of our members have responded by service in the armed forces and in other lines of war activity. We who remain in practice have an obligation to the members and the students who have joined the armed forces in seeing that the prestige of the profession is not only maintained, but enhanced during their absence so that on their return they may be more proud than ever of their chosen lifework. To do this we must uphold and improve the standard of the student who enters the profession and of the education and experience which he receives thereafter.

Sometimes the registered students must think that the council spends most of its time inventing ways and means to make the courses more difficult. It is true that the council is continuously studying methods to improve the tuition and training of the students, not for the purpose of making the courses harder, but to better prepare students for the duties which lie before them when they have obtained their degree.

Some of you have possibly been surprised to receive a call by an investigator from the council and to have been asked some very pertinent queries in respect of your professional practice. These investigations have been conducted in practically all offices from which students have applied for registration, the largest offices as well as those of the single practitioners. There has been no preference or privilege shown in collecting the information considered necessary to enable council to judge if the prospective student may obtain proper experience under proper working conditions.

I want to thank the members for the co-operation they have given the council in this phase of student education.

I am pleased to say that, on the whole, the investigators have been received cordially and have been presented with all of the facts requested. It is the intention of council to carry out this work even more extensively in the future and I bespeak on their behalf your continued assistance.

It is the duty of every practising member to choose students carefully and to diligently supervise their training, and it is essential to remember that the training and ethics which are inculcated in the student of today will be the governing factor in the reputation and progress of the profession of tomorrow.

Effects of Excess Profits Tax

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IT may be of interest to examine the real effective rate of excess profits tax paid by corporations in effect since 30th June 1942. Prior to this period various methods of imposing and calculating the tax were adopted, each of which had a different effect on the actual percentage of the excess profit taken away. An excess profits tax is imposed for the double purpose of raising additional taxes in time of war and of relieving industry of that part of the profits made as a result of the war; certainly a most necessary step both from a social and economic point of view. The main problems then of society or the state of taking for itself these excess profits fall into several categories.

1. How are the profits to be taken? In Canada, as most everywhere else, it is in the form of an excess profits tax.

2. What constitutes excess profits? This of course is the most contentious point. Generally speaking excess profits may be that part in excess of a fixed percentage on capital or on sales, or the amount in excess of what is normally earned in peace time. In Canada we have chosen the standard (peace time) profit method.

3. What portion of the excess profit is to be taxed? Theoretically speaking all profits in excess of normal, and

earned as a result of profits arising out of war conditions should be taxed. Unfortunately industry or capital must have some incentive if it is to produce the maximum for the war effort. Hence not all of the excess profit is taxed. At first Canada taxed only 75%, leaving as an incentive 25% of the profits, then 100% less a refundable portion of 20%, repayable at a specified time. As will be seen later on, the incentive, in the most probable cases, works out at a much higher rate.

Corporation Groups

To begin with we had a normal corporation tax rate of 18%, and on top of this base has been imposed changing rates of an excess profits tax. For the purpose of the tax calculation corporations can be divided into three classes.

1. Small corporations whose income is \$5,000 or less, before providing for shareholders' salaries, with an income tax of 18% in 1940, 1941, and part of 1942, and 30% thereafter.

2. Corporations whose earnings are in excess of \$5,000 before providing for salaries but under \$5,000 after salaries—the minimum standard profit—30% in 1940, 40% in 1941 and thereafter.

3. Corporations whose profits are in excess of \$5,000 with the following rates: If no excess profits then 30% in 1940 and 40% thereafter. If there is excess profit then the rate is 18% on the standard profit base plus 75% on the excess for 1940, 1941 and part of 1942 and 100% thereafter.

Thus it may be observed that in those cases where the profits of a corporation are in excess of \$5,000, the minimum tax rate is 40%, whether the company does show an excess profit or not. This fact is important as it establishes the basic rate—namely 40%. Hence it must be assumed that the standard portion of the profits should bear this rate. Actually, however, the standard portion of the total profit was taxed prior to 30th June 1942 at 18%, thus being relieved of 22%, and subsequent to 30th June 1942 is taxed at 30%, thus being relieved of 10% tax. The effect of this can be seen from the tables attached. (It is assumed that the basic rate is 40%.)

What Tables Show

From table "A" it may be noted that the percentage

of actual excess profits paid in taxes increases as the rate of profits over the standard increases. Thus a corporation must earn 50% more than its standard before 80% is paid in taxes, 100% more before 90% is paid and 500% more before 98% is paid.

This of course would seem to be quite fair and in order except for the fact that the refundable portion will eventually be a deduction (returnable at some future date) from the actual excess profits tax now paid. The refundable portion increases as the percentage of profit over the standard increases. Thus when profits are 50% more than standard the refundable portion represents 13.3% of the excess profits—when 100% more it is 16.6% of the excess—when 500% more it is 19.3% of the excess. The net result therefore is that taking into consideration the refundable portion, it takes a considerable increase in profits before a corporation will pay 75% in excess profits tax. At a 50% increase in profits the effective tax is 66.7%—at 100% increase the tax is 73.3% and at 500% increase the tax is 78.7%. While it is certainly possible for small companies to double or triple their profits, it is questionable whether there are many of the larger corporations able to do so.

It may be of interest to compare the present rate structure with that prevailing prior to 30th June 1942, see table "B": Here a corporation paid only 40% of its excess profits until the excess was approximately 60% above the standard. At double the standard the excess tax was only 57.5% and only when the profit was five times the standard did the tax reach 75%.

The effects of the change in the tax structure as before 30th June and after 30th June 1942 are noted in schedules "C" and "D". The greatest increase of course is in companies earning less than \$5,000 before salaries—66.6%; and in the other companies whose profits after salaries are less than the minimum standard of \$5,000. Then again there are sharp increases in the cases where the excess profits exceed the standard by 50% to 100%—this of course takes in the greatest number of probable cases of increases in corporate profits.

TABLE "A"

Showing the effective weight of the excess profits tax in effect after 30th June 1942 based on the premise that the basic rate of income and excess tax is 40%. (Other amounts are multiples of those shown in this table.)

	Profit	Excess Profit	Percent of Excess Over Standard	Tax When Profit is Standard or Less	Tax When Profit is More Than Standard	Percent of Tax on Excess Profit	Refundable Portion	Percent of Refundable Portion	Net Tax Payable on Excess	Percent Net Tax on Excess
1	6,000	1,000	20	2,400	2,500	50.0	33	3.3	467	46.7
2	6,250	1,250	25	2,500	2,750	60.0	83	6.6	667	53.4
3	6,500	1,500	30	2,600	3,000	66.6	133	8.8	867	57.8
4	6,750	1,750	35	2,700	3,250	71.5	183	10.4	1,067	60.9
5	7,000	2,000	40	2,800	3,500	75.0	233	11.6	1,267	63.3
6	7,250	2,250	45	2,900	3,750	77.7	283	12.6	1,467	65.2
7	7,500	2,500	50	3,000	4,000	80.0	333	13.3	1,667	66.7
8	8,000	3,000	60	3,200	4,500	83.3	433	14.4	2,067	68.9
9	8,500	3,500	70	3,400	5,000	85.7	533	15.2	2,467	70.5
10	9,000	4,000	80	3,600	5,500	87.5	633	15.8	2,867	71.7
11	9,500	4,500	90	3,800	6,000	88.8	733	16.3	3,267	72.6
12	10,000	5,000	100	4,000	6,500	90.0	833	16.6	3,667	73.3
13	11,250	6,250	125	4,500	7,750	92.0	1,083	17.3	4,867	74.6
14	12,500	7,500	150	5,000	9,000	93.0	1,333	17.5	5,867	75.5
15	13,750	8,750	175	5,500	10,250	94.2	1,583	18.1	6,867	76.2
16	15,000	10,000	200	6,000	11,500	95.0	1,833	18.3	7,867	76.7
17	17,500	12,500	250	7,000	14,000	96.0	2,333	18.6	9,867	77.3
18	20,000	15,000	300	8,000	16,500	96.5	2,833	18.8	11,867	77.7
19	25,000	20,000	400	10,000	21,500	97.5	3,333	19.1	15,867	78.3
20	30,000	25,000	500	12,000	26,500	98.0	4,333	19.3	19,867	78.7
21	40,000	35,000	700	16,000	36,500	98.6	6,333	19.5	27,867	79.1
22	50,000	45,000	900	20,000	46,500	98.9	8,333	19.6	35,867	79.3

TABLE "B"

Showing the real incidence of the excess profits tax in effect prior to 30th June 1942 based on the premises that the basic rate on the standard profit is 40%. The minimum standard of \$5,000 is used, other standards are simply multiples of this amount.

	Profit	Excess Portion of the Profit	Percent of Excess Over Standard	Tax If All Standard	Tax If Profits Above Standard	Tax On Excess Portion	Percentage of Tax On Excess
1	6,000	1,000	20	2,400	2,400		40.0
2	6,500	1,500	30	2,600	2,600		40.0
3	7,000	2,000	40	2,800	2,800		40.0
4	7,500	2,500	50	3,000	3,000		40.0
5	8,000	3,000	60	3,200	3,285	1,285	42.8
6	8,500	3,500	70	3,400	3,683	1,683	48.0
7	9,000	4,000	80	3,600	4,080	2,080	52.0
8	9,500	4,500	90	3,800	4,476	2,476	55.0
9	10,000	5,000	100	4,000	4,875	2,875	57.5
10	12,500	7,500	150	5,000	6,863	4,863	64.8
11	15,000	10,000	200	6,000	8,850	6,850	68.5
12	20,000	15,000	300	8,000	12,825	10,825	72.1
13	25,000	20,000	400	10,000	16,800	14,800	74.0
14	30,000	25,000	500	12,000	20,775	18,775	76.1
15	40,000	35,000	700	16,000	28,725	26,725	76.3
16	50,000	45,000	900	20,000	36,675	34,675	77.0

TABLE "C"

Showing percentage of increase in *income tax* on corporations earning more than \$5,000 before allowance for salaries but less than minimum standard of \$5,000 (after allowance for salaries).

	Profit (After Salary)	Tax Prior To 30th June 1942	Tax After 30th June 1942	Increase	Percentage of Increase
1	2,500	450	750	300	66.6
2	2,800	568	880	312	54.9
3	2,900	686	1,010	324	47.0
4	2,800	804	1,120	316	39.0
5	2,900	922	1,160	238	25.8
6	3,000	1,040	1,200	160	15.0
7	3,100	1,118	1,240	122	10.0
8	3,250	1,300	1,300	—	—
9	5,800	2,320	2,300	20	—

TABLE "D"

Showing percentage of increase in *income and excess profits tax* on corporations earning in excess of minimum standard profit of \$5,000 or the actual standard (a multiple of the amounts shown in this table).

	Profit	Percentage of Profit Over Standard	Tax Prior To 30th June 1942	Tax After 30th June 1942 (Less Refundable)	Increase	Percentage of Increase
1	6,000	20	2,400	2,467	67	2.8
2	6,500	30	2,600	2,867	267	10.2
3	7,000	40	2,800	3,267	467	16.7
4	7,500	50	3,000	3,667	667	22.2
5	8,000	60	3,285	4,067	782	23.8
6	8,500	70	3,683	4,467	784	21.3
7	9,000	80	4,080	4,867	787	19.2
8	9,500	90	4,477	5,267	790	17.6
9	10,000	100	4,875	5,667	792	16.2
10	12,500	150	6,863	7,667	804	11.7
11	15,000	200	8,850	9,667	817	9.2
12	20,000	300	12,825	13,667	842	6.6
13	25,000	400	16,800	17,667	867	5.1
14	30,000	500	20,775	21,667	892	4.3

Court Decision in Annuity Case

BY reasons of discussion in the House of Commons this spring and the amendment thereby resulting to the *Income War Tax Act*, public interest has been aroused with respect to taxation of annuities. The judgment of Mr. Justice Thorson, the president of the Exchequer Court of Canada in the appeals of William M. O'Connor and two others is therefore particularly timely. Of particular interest in the judgment is Mr. Justice Thorson's unhesitating conclusion that based upon authority, the term "annuities" as used in two distinct sub-clauses of Section 3, which defines "income", has two quite different meanings.

Facts

The judgment deals with three appeals from decisions of the Minister of National Revenue, the appellants being beneficiaries under the will of the late Senator Frank P. O'Connor. The trustees of the estate were directed by the will to pay legacies *out of the capital* of the estate to the three beneficiaries, and in each case payment was to be made of a stated sum semi-annually until the amount of the legacy had been fully paid. Thus in the case of William M. O'Connor the trustees were directed to pay, until the death of the survivor of William M. O'Connor and his widow, or until \$40,000 should have been paid, whichever event should first occur, the sum of \$1,000 on each 24th day of March and 4th day of December. The inspector of income tax in the case of each appellant assessed the payments referred to as income subject to tax in the years in which received.

Contention

The appellants based their appeals upon three grounds. They referred to the definition of income in section 3 of the *Income War Tax Act* and said firstly that under paragraph (a) of the section income is defined to include the income from but not the value of property acquired by gift, bequest, devise or descent. Secondly, the appellants argued that the payments made to them were not "annuities or other annual payments" within paragraph (g) of Section 3, but on the contrary were several legacies to each of them, not exceeding the aggregate provided and payable exclusively out of the capital. In this connection they argued that

the essential test of an annuity or other annual payment under Section 3(g) was that it should constitute a charge upon the whole estate of the testator, whereas the legacies to them were simply a distribution or division of the capital of the estate. The third ground taken by the appellants was an interesting one, but Mr. Justice Thorson found it unnecessary to reach any decision upon the point. The appellants pointed out that income as defined in Section 3 was stated to include "the annual profit or gain from any other source including" the section then setting out the paragraphs lettered (a) to (h). Accordingly they said the section only defined as income the annual profit or gain from annuities or other annual payments referred to in paragraph (g) and not the annuities or other annual payments themselves.

Judgment

His Lordship referred to a number of cases defining the expression "annuities." He pointed out that the inclusion of annuities or other annual payments as income by Section 3 (g) was made by amendment enacted in 1938 following the decision in the Exchequer Court in *Toronto General Trusts Corporation as Executors of the Estate of Sarah Whitney vs. The Minister of National Revenue*. In that case an annuity of \$25,000.00 per annum, payable to the widow for life, quarterly in advance, was held to be exempt from tax as not being income. Mr. Justice Thorson expressed his view that the annuity in that case if still payable was rendered taxable by the enactment of Section 3 (g) subject to the argument that it is only the annual profit or gain from the annuity or other annual payment which is to be considered as taxable income. Mr. Justice Thorson referred to leading English and Canadian decisions as to the rule for the construction of taxing statutes. The court is to give effect to the meaning of the language used in the statute, but is not to assume any governing purpose in the Act except to take such tax as the statute imposed.

Meaning of Annuity

The word "annuity" is one which is often loosely and ambiguously used. Where the "annuity" is payable under the terms of a contract the meaning is well settled by judicial decision. It is an income purchased with a sum of money or an asset which then ceases to exist, the principal

having been converted into an annuity. In a leading English case Baron Watson in illustrating what would not be an annuity took as an example a will giving to a legatee money payable by instalments (this decision was rendered prior to amendment of the British Revenue Acts subjecting annuities by will to income tax). Paragraph (b) of section 3 of the *Income War Tax Act* defines as income the annual profit or gain from any other source including annuities or other annual payments received under the provisions of any contract except as in the Act otherwise provided. Thus notwithstanding that the annuity under a contract is an inseparable blending of capital and interest it is all taxable as income. The distinctions between an annuity by contract and an annuity to a beneficiary under a will can be readily seen, and the term annuity is not an apt term to apply to legacies under a will except in so far as it is loosely used to signify annual payments of a fixed amount either payable out of income or chargeable upon the whole estate. It follows, therefore, in Mr. Justice Thorson's view that the term annuity cannot have precisely the same meaning in section 3 (g) as it has in section 3 (b). The meaning of annuity in section 3 (g) had nevertheless to be determined and His Lordship stated that the term annuities or other payments received under a will included annuities that are chargeable against the whole estate of the testator. He also thought it reasonable to hold that section 3 (g) brought into charge for income tax purposes the type of payment authorized by a will where a beneficiary is to receive the entire income from the estate together with such additional sums out of the capital of the estate as would be necessary to make a total of a stated sum. Another type of payment which would be brought into charge by section 3 (g) was a fixed sum per month or week for life.

Instalment Legacies

The learned Judge pointed out that the legacies bequeathed by Mr. O'Connor's will to the appellants did not take the form of any of those which he felt were rendered taxable by section 3 (g). He pointed out that the legacies were paid out of the capital on specific dates twice a year aggregating a specified sum subject only to the contingency that the person entitled to the legacy payment should be alive when it became payable. Alternatively the will gave

to each of the appellants a legacy of a maximum amount exclusively out of capital payable by instalments and subject to the contingency that the person entitled should be alive when the instalment became payable. Legacies as such are not defined as income. Paragraph (a) of Section 3 provides that income includes the annual profit or gain from any other source including the income from but not the value of property acquired by gift, bequest, devise or descent. The legacies to the appellants came all out of capital. A maximum amount was fixed for each legatee who was not to receive it all in one lump sum but at stated periods if he was then alive. There was no bequest of income and no charge against the whole estate or any particular fund. The term "annual payments" must be read *ejusdem generis* with the term annuity, i.e., their meaning is controlled and limited by the meaning of the term "annuity." His Lordship therefore held that the payments to the appellants were not subject to income tax as the Minister had failed to discharge the onus upon him to show that the words of section 3 (g) had reached the alleged subject of taxation and clearly and expressly brought into charge for income tax purposes the amounts received by the appellants.

The appeals were allowed with costs.

TABLE OF EXCHANGE RATES

(Kindly supplied by The Canadian Bank of Commerce, Toronto)

	31st July 1943	16th August 1943
U.S. Dollars	10-11% P.	10-11% P.
Sterling	443-447	443-447
Australian Pounds	358½	358½
New Zealand Pounds	360	360
South African Pounds	443	443
British West Indies—Dollars	9270	9270
India—Rupees	3356	3356
Hong Kong—Dollars	(Custodian rate) 2781	2781
Straits Settlements—Dollars (Custodian rate)	5226	5226
Sweden—Kronor	2633	2633
Switzerland—Francs	2569	2569

Note: The above currencies are expressed as follows: Pound currencies—Canadian cents per unit; Continental currencies and sundry British Empire—Canadian cents per 100 units.

Foundry Costs

By J. E. Carruthers

Chief Cost Accountant,

Ford Motor Company of Canada, Limited

(An address delivered to the Windsor Chapter, The Canadian Society of Cost Accountants and Industrial Engineers, 25th March 1943).

Furnace Metal Material Costs

1. To arrive at material costs in a foundry it is essential that accurate reports be arranged for, to show the quantities of the various classes of materials used in the furnaces and the production both gross and net of each part produced.

2. Foundry materials—To determine the quantity of each class of metal used, the foundry superintendent assisted by his technical staff compile a standard "charge" per furnace which is designed to produce metal of the desired analysis. These standard charges are used as a guide when loading a "charge"—into the furnace loading bucket. This bucket is placed on scales and the magnetic crane loads the bucket. The actual weight of each type of metal is registered and entered on a furnace "charge" report (exhibit A). These "charge" reports are collected daily and summarized on furnace report (exhibit B) to show the quantity of each type of metal used for all heats and a final total of all ingredients used. The furnace report shows the gross number of each part procured and the gross weight per piece—also the number and weight of pigs made. A calculation is made and the total weight obtained is balanced against the total weight of metal melted in the furnace. The difference represents lost weight through evaporation, materials used for purifying the metal, spills and pigs poured. Any major differences are run down by the foundry before releasing these reports to the cost department.

3. It will be observed that there are two types of furnace reports used—exhibit A is the weight sheet taken as the "charge buckets" are loaded while exhibit B represents the additions to the melt made to adjust the melt to the proper analysis. On this later report is posted the gross weight per piece poured and the volume of each part, also the pigs made.

4. Having regard to the fact that all metal poured can ultimately be used in producing good castings the only loss in metal value is the evaporation that takes place while melting and the loss of the ingredients used to purify the metal (i.e.) limestone, aluminum and petro coke, etc.

5. When examination is made of the materials used in the furnace melts it is noticed that a certain amount of new materials have been used and a certain amount of "remelt" metal has been put back in the mixture. The new materials used have a cost value while the re-used materials can be considered as having no value for the purpose of distributing costs.

6. The statement that "remelt" metals have "no value" can be challenged on the grounds of the previous statement made to the effect—that the only loss in value is the evaporating and the purifying ingredients. However, it should be kept in mind that the only value to be distributed is the amount lying in process manufacturing accounts not previously distributed and if the remelt is given a value it will be necessary to charge manufacturing operations with this value and credit a "sale of scrap" account. This would create a high profit position in the "sale of scrap" account and consideration of this would have to be given in the nature of a reduction in costs on individual parts on a pro-rata basis. Instead of costing in this manner a cost is developed by taking the gross volume of parts produced at net weight and ascertaining the cost per pound of metal. This is accomplished by dividing the cost of the new materials used in the furnace mix by the gross volume times the net weight. The net weight of a part multiplied by the cost per pound will indicate the material cost of that part.

7. At this stage a calculation of the gross volume of parts by the cost per pound will produce an accurate distribution of cost of new materials used. However, the problem remains of determining the cost of the good castings produced.

8. After pouring, the parts produced are snagged, cleaned and ground, inspected, annealed, etc. During this process a considerable number of castings are damaged while the defective parts are rejected by inspectors. A daily report is completed of the number of good castings

produced. These figures are applied to the gross casting poured and a percentage of spoilage to net good castings is compiled. Some castings have a higher spoilage than others.

9. In order to recognize this spoilage factor, which varies with each part, reference is now made to the distribution of material costs by part number which accounts for all moneys spent. The total cost for each part (gross volume x cleaned weight x cost per pound on metal) is divided by the net volume of good castings produced. The result is a unit material cost per good casting at net weight.

10. The same results are obtained by: (a) Multiply net weight of casting by cost per pound; (b) increase by adding per cent of spoilage to cost as developed above.

11. A schedule exhibit C is attached which shows an actual calculation compiled for a cost period indicating how the costs are computed in both ways as outlined above to get the same answers. Section A of the attached schedule illustrates paragraph number 9 and section B covers paragraph number 10.

12. It has been argued that as all metal poured can ultimately be used to produce good castings that spoilage should not be added to the value as indicated in paragraph 10b above. However, when considering all factors it was decided that this method was the only correct solution to the problem. Consider the fact that there is \$94,827.30 to be distributed among the castings produced and we arrive at the conclusion that this distribution of value is on the basis of its use. When this has been determined it follows that the net good castings must bear the cost of the metal poured.

Labor Costs—Melting

1. The labor costs for melting can be arrived at in several ways. There is the labor incentive method which guarantees a base rate but pays on tonnage produced. The rates for tonnage produced should enable melters to earn not only their base rate but exceed it.

2. The payment of straight day work makes the problem a little more difficult. It is necessary to study the number of men necessary to operate a furnace and the average number of heats that each furnace turns out. After

studying all factors a standard hour is developed to represent the unit of time taken to melt a given quantity of metal. This standard is based on the pounds poured into moulds. The wastage through evaporation, purifying compounds and pigs poured is disregarded. Only metal actually poured is considered.

3. The labor cost at this point is called "labor costs at the spout". It does not include the labor for pouring—as each casting poured is different—therefore different labor standards are required for each part.

4. Reference to foundry furnace report "exhibit B" will show how the metal poured compares with the actual metal melted.

5. The efficiency of the operation when applied to standard hours per pound of metal poured is arrived at in the following manner.

- (a) Record on daily production report (summarized every two weeks to tie in with the pay period) the number of castings poured as taken from the foundry furnace report (exhibit B).
- (b) Standard hours for each casting is arrived at by multiplying the gross weight poured by the standard hours per period as developed through process outlined in paragraph 2.
- (c) Accumulate the total standard hours for all parts produced. Compare with actual hours paid for these operations. The ratio between actual and standard is then determined.
- (d) If the ratio is 110 and the actual labor rate is 90c per hour then the cost per standard hour is 99c.
- (e) Application of the cost per standard hour to the standard hours set for each part (see paragraph 5b) will furnish the labor cost per casting at the spout.

6. Paragraph 5 deals with the cost of the castings ready for pouring at the spout. Between the time the castings are poured to the time they leave the foundry—there is a loss. This can be seen by referring to "exhibit C". Some castings have a greater spoilage than others. When castings are spoilt all the labor and overhead performed on them up to the point of spoilage has been lost. So that

each part will bear the cost of its own spoilage the percentage of castings spoilt to net good castings shipped is added to the cost of the labour at the spout. Attached is a foundry cost sheet "exhibit D" which reflects this calculation.

Labor—Pouring and Shake Out

After the metal is melted it is poured into the various moulds—dry sand—green sand and permanent moulds (metal).

The first operation to consider is pouring. A standard hour is set for each part. As each part differs in size and weight—some spun and some poured in stationary moulds—it becomes necessary to study all these conditions before arriving at a standard. The standard hours are then established based on gross castings poured. The production during the pay period is developed and the total standard hours are calculated. When applied against the actual hours worked the variation from standard is determined and the cost per standard hour developed in the same manner as outlined for milling labor costs.

The loss between pouring and finishing is calculated and the percentage of loss added back to the gross cost. This means that every part carries the cost of its own spoilage. The percentage of spoilage is calculated on the net good castings to pieces spoilt.

The labor standard for "shake out" is calculated separately but for the sake of convenience of calculation is combined with the labor of pouring.

Labor—Cleaning—Heat Treat

The labor standards for this class of work are developed along different lines than the melting, pouring and shake out labor. It is a simple matter to determine the spoilage for the latter as the difference between poured and finished represents the spoilage. To determine the spoilage at each operation required to finish the casting after it has been shaken out of the moulds would require a considerable clerical staff. To overcome this the time study men establish, after study, what they consider as a fair loss at each operation for each type of casting and make allowances in the standard hours set to pick up such losses, the theory being that if the standard hours are correctly established and the loss due to spoilage considered

at a fair figure then the inefficiency of the operations will be picked up in the variation from standard and reflected in the cost per standard hour.

Unlike the other labor operations the cost of the spoilage has been picked up in the labor costs therefore it will not be necessary to add anything to this labor cost for spoilage except for one factor,—which is the loss due to defective castings discovered after the casting has left the foundry. The defective castings returned are recorded and the percentage based on net good castings produced. This percentage of spoilage is added back to all the labor performed in the foundry whether for melting, pouring or cleaning, etc.

CORES AND MOULDS

Material Costs

1. We will deal with the cores and moulds which are currently being used.

- (a) Green sand
- (b) Dry sand
- (c) Permanent moulds

Green Sand

2. The materials used to make green sand moulds can be used again after the casting has been shaken out. At that time the used moulding sand is sifted to remove all "fines" and foreign matters before being sent back to the mixer where new ingredients are added preparatory for its re-use.

3. The operations for making green sand moulds are kept separate from dry sand operations, therefore, separate locations are allotted for each type.

4. All ingredients used are brought together in a mixer. After being thoroughly mixed the prepared sands go to a hopper ready for use.

5. At this time it becomes necessary to arrange to secure daily reports of the new materials added. These materials are summarized and costed each cost period. It is very necessary that accurate reports be made as the correctness of the costs depends upon them. To make sure of this a test check is prepared. Take an inventory of all materials to be used at the beginning of the period, add the purchases made during the cost period and then

deduct the inventory taken at the end of the period. Match the results obtained in this method against reports made of materials used.

6. The test check through inventories and purchases is at the best a rough and ready check as all foundry materials have to be considered—both green sand and dry sand. A consolidated result only is obtainable but nevertheless inaccuracies of reporting become apparent.

7. When a foundry first starts up all materials used are new—they are absorbed in the first costs—Similarly when foundry production increases new additional materials are used. These are included in the costs of the new materials added to the mix. New production of castings readily absorb the increased costs.

8. To distribute the cost of the new materials used, it is necessary to determine the total weight of all cores and moulds consumed during the cost period.

9. To arrive at this figure the unit weight of the cores and moulds required for each type of casting poured in green sand is ascertained. Multiply this figure by the total number of castings poured.

10. The total amount of money spent for new materials is divided by the total weight of the cores and moulds. The resulting cost per pound is then multiplied by the weight of the moulds used to make each type of casting. The answer represents the cost per mould for each and every casting poured.

11. The moulding costs are then transferred to the foundry cost sheet—see “exhibit D”.

12. Whenever a casting is spoilt the core and the moulds are lost. It is necessary to pick up the cost of the loss for each part and add it back to the original cost. This is accomplished by determining the spoilage of castings. The percentage of spoilt castings to net good castings produced is ascertained and added back to the cost. (see illustration on exhibit D). The result of this is to make each casting bear the cost of its own spoilage.

Dry Sand Cores and Moulds

13. The difference between the costs of green and dry sand moulds is caused by the fact that the materials used to make dry sand moulds cannot be used over again. The

labor costs for making them are higher and each dry sand mould and core has to be baked in an oven. It is obvious that dry sand moulds and cores are more costly than green sand.

14. It might be asked, why—if this is so—should dry sand moulds be used? There are many reasons but as cost is the subject now under discussion no attempt will be made to answer this fully. However, spinning metal is done in dry sand moulds. The use of green sand moulds for this type of foundry production has not been successfully accomplished yet.

15. To arrive at the cost of dry sand moulds and cores, the same procedure is used as for green sand, the only difference being that the reports for the materials used must be complete so as to include all items used, all of which are costed and applied to the total weight of "dry sand" used to produce all castings made by the "dry sand" method.

16. To arrive at all factors to determine the weight and the number of cores and moulds used for each type of casting produced—a data sheet is prepared for each part by the foundry and time study—which when complete is sent in to the cost department for figuring (see "Exhibit E").

17. The reports of the materials used to make the various cores and moulds are sent in on a report form which is attached and shown as exhibit F.

Permanent Moulds

18. As the name would imply these moulds are made of metal and are used over and over again. Their life is limited and study of results is the only means of determining how many castings can be made from one mould.

19. The cost of the mould is first ascertained and recorded against the part to be produced. A number of these moulds are made for each part and replacements are being made continuously. An estimate is prepared by the foundry superintendent of the number of castings expected to be produced from each mould. This is used at first as an estimate when preparing costs. The record that is maintained for each part shows the cost of all moulds bought. The volume of parts produced and the amount of the

mould that has been absorbed to date at the unit cost estimated. Eventually the record reveals a uniform cost pattern and the estimate at first given is replaced by actual cost performance.

Labor—Cores and Moulds

1. Labor standards are prepared by the time study for each core and mould produced—whether for the green or dry sand. The summary of such standards is posted to the production report (see exhibit G). As the making of the cores and moulds synchronizes with the pouring of the castings, the production of the cores and moulds is taken to be the same as the castings poured. The total number of actual hours is compared with the standards established and the difference represents the variation from standard. The ratio is applied to the actual rate per hour and a labor cost per standard hour is developed. This rate applied to the standard hours set for each part will furnish an actual labor cost per cores and moulds used per casting.

2. The spoilage costs are added and are computed on the same basis as for materials and which is outlined in paragraph 12 of green sand moulding material costs.

MISCELLANEOUS

Electrodes

1. It will be noticed that on the foundry cost sheet provision is made to cost "electrodes" as a separate element of cost. This is a large item of cost in the electric furnaces and is kept out of the overhead. A record is maintained of all electrodes used during a cost period and the cost per pound of castings poured is calculated. From this the electrode cost per casting is ascertained.

Fuel Coal

2. Melting furnaces which use coal instead of electricity are kept separately. The coal used is taken from reports sent in by the foundry and costed. The pounds of castings poured from "coal furnaces" are determined and the cost per pound of casting is calculated and transferred to the foundry cost sheet.

Heat Treat

3. Castings requiring heat treat pass through the heat

treating departments and costs are obtained by use of the standard hours set by the time study department. The spoilage for this operation is very small, being occasioned mainly through defective castings made and discovered after the castings have left the foundry. The percentage of such loss is added back to the heat treat costs so as to maintain the principle of having each part bear the costs of its own obsolescence.

Spoilage

4. Emphasis has been made throughout on the method used to charge back each part with the cost of the parts spoiled rather than handle through overhead. If overhead is the result of a percentage to productive labor then to charge all spoilage to overhead would result in a weighted average cost of spoilage dependent on the productive labor for cost application. The effect would be for castings having a high spoilage rate to be undercosted and the castings with a low spoilage burdened with unearned costs.

5. A great deal of consideration was given as to how to handle spoilage and it was considered that the method outlined so far, results in fair and accurate costs.

6. The greatest difficulty is to secure accurate spoilage reports. It has been observed that no matter how good the shop is in reporting losses—the reports are subject to errors, due to the very nature of foundry operations. To get accurate answers arrange to get accurate counts of (a) the total castings poured by part number, and (b) the total castings finished part number.

7. Disregard the work in process if the volume of work is constant. The difference between the total castings poured and finished will furnish the number of castings spoiled. If the production varies continuously then arrange to take inventory of all castings in process at each cost period and adjust the spoilage by the difference between the inventory at the beginning and the end of the period.

Metal Scrap

8. When a foundry is a department in a manufacturing plant which machines castings it is necessary to maintain the foundry as a separate business. To do this all the metal scrap turned over by the machining division is recorded and charged to the foundry costs at the fair market

value. This will create a revenue for sale of scrap. The scrap has to be disposed of, either you sell it to metal dealers or you sell it to yourself. The effect of this is to create a true foundry cost which is competitive. Any defective foundry parts reported by the machine shop are returned to the foundry and treated along with the foundry spoilage and included in the cost of the casting. All machining time lost is charged to the foundry.

Overhead

1. Examine the plant and decide what costs are wanted and then break down the foundry operations into departments.

- (a) Electric furnace
- (b) Brackelsberg furnace (coal)
- (c) Core and mould making
- (d) Pouring and cleaning

2. The above represent the usual departments in a foundry.

3. If sales are to be made of "pig"—then it is necessary to know the cost of the metal at the spout.

4. If sales are to be made of cores and moulds, then it is necessary to know the overhead cost of this department.

5. If sales are to be made of finished foundry castings then the overhead of the pouring and cleaning departments are required.

6. As cores and moulds are made to flow along with the production of poured castings and as cores and moulds are not sold as such, why then establish two burden centers when one will do?

7. If we decide to have three burden centers namely: (a) Electric furnace; (b) coal furnace; and (c) all other foundry operation; then it is necessary to have all information collected into these three groups.

8. Overhead as applied to productive labor for determination of a burden rate.

9. Arrange to classify overhead into two main groups: (a) Variable expense; and (b) non variable expense.

10. Charge all operating expenses to variable expense. These expenses rise and fall in direct ratio to the productive effort. In other words the expenses vary with varying volumes.

11. The fixed charges can be considered as belonging to that group of expenses that usually do not vary with

volume of production. These expenses can be broken down into two more divisions—"fixed charges" and "non variable."

12. "Fixed Charges"—include such items as: (a) Depreciation; (b) taxes; (c) insurance; and (d) rents.

13. "Non-Variable Expenses" are a little more difficult to define. They are those types of expenses that are not affected by the rise and fall of production within normal limits. The biggest items of this type of expense are all salaried personnel—such as supervisors and clerical, watchmen, doormen, elevator operators, subscriptions, etc.

14. It is desirable as far as practical to break down the manufacturing expenses into these groups as it helps to forecast burden at varying volumes and is also useful when fixing selling prices.

15. Depreciation is divided between buildings and equipment. The equipment is listed where it is located and the depreciation is charged to the required department. Building depreciation is pro-rated according to floor space. Taxes on buildings to be pro-rated on basis of floor space—while property taxes can be split either on the basis of the floor space occupied by the buildings or pro-rating on the basis of productive effort of the manufacturing plant. The former method seems to be the most desirable. Insurance to be distributed according to what is insured. Rents to be treated in the same manner as depreciation and taxes on buildings.

16. To determine selling prices the overhead of any one month should not be taken. A twelve months' average is reasonably satisfactory but cannot be used without examining past performance and injecting a forecast for the future. It may be said that the only proper basis is to calculate a standard overhead rate based on normal production. The standards to be changed from time to time as conditions warrant.

FOUNDRIY COSTS

Exhibit "A"

(The following indicate the headings of this form.)

FURNACE CHARGES

TYPE OF METAL DATE

GE 346

BUCKET

PIG IRON

LOW CARBON

1 2 3 4 5

Bdls. Loose

..
..
..

SPRUE

BORINGS

Army	Hub	C.I.	P.R.	Army	Hub	Crank	C.I.
------	-----	------	------	------	-----	-------	------

..
..
..

SCRAP

Nickel

Rail	Forg.	Shell	..	Flash
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..
..
..

Ferro Alloys

Mn.	Sil.	Chr.	Lime Stone	Petro Coke	Mall. Scrap
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..
..

Exhibit "B"

FOUNDRIY FURNACE REPORT

METAL		DATE						
FURNACE No.								
Materials Used	Item Master No. Charge	1	2	3	4	5	6	Total
Ferro Manganese	1	..	..	..	..	..	..	....
Ferro Chrome	2	..	..	..	..	..	..	200
Ferro Silicon	3	..	..	..	..	..	..	14000
	4	..	..	..	..	..	..	....
Iron Ore	5	..	..	..	..	..	..	....
Pig Iron No. 1	6	..	..	..	..	..	..	1,405,000
Pig Iron No. 2	7	..	..	..	..	..	..	500
Pig Iron No. 3	8	These columns are used to						21,500
Pig Iron No. 4	9	post the additional metal						500
Pig Iron No. 5	10	..	..	..	..	..	..	....
Scrap—Copper	11	..	..	..	..	..	..	....
Scrap—Borings	12	added to the master charge						181,000
Scrap—Borings C.I.	13	..	..	..	..	..	..	375,000
Scrap—Forgings	14	for each heat.						15,000
Scrap—Stamp. Loose	15	..	..	..	..	..	..	1,443,000
Scrap—Stamp. Bundled	16	..	..	..	..	..	..	1,731,000
Scrap—Tool Steel	17	..	..	..	..	..	..	....
Scrap—Rails	18	When actual weights are						....
Scrap—Malleable	19	..	..	..	..	..	..	228,600
Scrap—Auto Cast	20	taken for each furnace						....
Scrap—Shell Ends	21	..	..	..	..	..	..	....
Remelt	22	charge it is unnecessary to						3,293,430
Remelt—Push Rod	23	..	..	..	..	..	..	....
Remelt—Army	24	use these columns.						161,699
Nickel Flashings	25	..	..	..	..	..	..	....
Briquettes	26	..	..	..	..	..	..	....
	27	..	..	..	..	..	..	....
	28	..	..	..	..	..	..	....
Total Charged	..	..	..	..	..	..	..	8,870,429
Limestone	..	..	..	..	..	..	..	40,000
Aluminum	..	..	..	..	..	..	..	12,000
Petro Coke	..	..	..	..	..	..	..	....
Part Number	Poured Weight	NUMBER OF PIECES PRODUCED PER HEAT						
Items 1 to 21	Unit weight which has been established after careful study.	This is a record of the						....
These are accumulated from the		actual number of cast-						....
Daily reports		ings poured which,						....
		when multiplied by the						....
		poured weight per cast-						....
		ing will give the total						....
		pound weight. A com-						....
		parison between melted						....
		weights and poured						....
		weights is obtained.						....
Total Poured Weight		..	..	..	..	..	..	8,836,274
Power On	M.	..	..	..	..	..	..	....
Sample	..	..	..	..	..	..	..	....
Tapped	..	..	..	..	..	..	..	....
All Out	..	..	..	..	..	..	..	....
Heat No. per Lining	..	..	..	..	..	..	..	....
Transferred from Heat No.	..	..	..	..	..	..	..	....
Use Other Side for Remarks								

FOUNDRY COSTS

March 1943

Exhibit "C"

SECTION "A"

SECTION "B"

Item Number	1	2	3	4	5	6	7	8	9	10
	Total No. of Castings Poured	Total No. of Good Castings	% Spoilage Casts to Number of Good Castings	Spoiled Casts Net Weight of Cleaned Castings	Total No. of Pounds @ Cleaned Weight (1 x 4)	Distrib. of Money Spent (\$21 1/4¢ per lb)	Avg. Cost per Piece of Good Castings (6 ÷ 2)	Avg. Cost per Piece of Gross Castings (6 ÷ 1)	Spoilage (3 x 9)	Avg. Cost per Piece of Good Castings (Same as Item 7) (3 ÷ 9)
1	1,848	1,751	5.54	18.20	33,634	504.51	28.81	27.30	1.51	28.81
2	7,080	6,939	2.03	36	254,880	3,523.20	55.10	54.00	1.10	55.10
3	23,160	19,840	16.73	33.50	775,860	11,637.90	58.66	50.25	8.41	58.66
4	3,651	3,491	4.58	9.25	33,772	506.58	14.51	13.87	.64	14.51
5	2,023	1,690	19.70	24.50	49,564	743.46	43.99	36.75	7.24	43.99
6	23,586	22,653	4.11	25.75	607,314	9,109.71	40.21	38.63	1.58	40.21
7	4,571	4,353	5.01	25	114,275	1,714.12	39.38	37.50	1.88	39.38
8	50,018	48,865	2.36	53	2,650,952	39,764.28	81.38	79.50	1.88	81.38
9	752	748	.53	27.25	20,492	307.38	41.09	40.87	.22	41.09
10	5,260	4,680	12.39	12.50	65,750	386.25	21.07	18.75	2.32	21.07
11	12,404	10,548	17.60	13.25	164,353	2,465.30	23.37	19.87	3.50	23.37
12	6,257	4,902	27.65	27	168,939	2,534.09	51.70	40.50	11.20	51.70
13	5,885	4,610	27.65	27	158,895	2,383.42	51.70	40.50	11.20	51.70
14	3,030	1,921	57.75	45.50	137,865	2,067.97	107.65	68.24	39.41	107.65
15	5,389	3,416	57.75	45.50	245,200	3,578.00	107.66	68.25	39.41	107.66
16	26,328	23,276	13.11	8.50	223,788	3,356.82	14.42	12.75	1.67	14.42
17	888	854	3.98	8.50	7,548	113.22	13.29	12.75	.51	13.26
18	1,590	1,556	2.19	7.75	12,323	184.85	11.88	11.63	.25	11.88
19	57,464	53,820	6.77	5.75	330,418	4,966.27	9.21	8.63	.58	9.21
20	84,354	78,036	8.10	3	253,062	3,795.93	4.86	4.50	.36	4.86
21	4,312	3,754	14.86	3	12,936	194.04	5.17	4.50	.67	5.17
TOTAL:	329,849	301,703	48.146		6,321,320	94,827.30				

THE CANADIAN CHARTERED ACCOUNTANT

Exhibit "C" (continued)

		March 1943.
		Page 2.
<i>Furnace Report</i> = Metal Bought	5,576,999 Lbs.	\$ 94,827.30
" Salvaged	3,293,430 "	N/C
		8,870,429 Lbs.
<i>Castings Poured at Gross Weight</i>	8,836,274 Lbs.	\$ 94,827.30
Less Sprue	2,516,454 "	
<i>Castings Poured at Net Weight</i>	6,321,820 "	(See page 1
Metal Cost—(New Money Spent)	\$ 94,827.30	Column 5)
Average Cost per Pound	1.50c	
Castings Damaged in Process	529,526 Lbs.	
New Good Castings Produced	5,792,294 "	
Average Percentage Lost	9.14%	

Exhibit "F"

CORE AND MOULD MATERIAL

Date:

"M" NO.	Material	Crank Sand	Small Core Sand	Core Wash	Army Moulds	Hub Moulds	C. I. Moulds
6067	Sharp Sand ....	..	..	..	..	..	..
6066	Bank Sand ....	..	..	..	..	..	..
6071	Silica Flour ...	..	..	..	..	..	..
	Rex Flour						
8106	Cereal Binder .	..	..	..	..	..	..
8107	Clay Flour ....	..	..	..	..	..	..
1401	Linseed Oil ....	..	..	..	..	..	..
8108	Rosin Oil .....	..	..	..	..	..	..
8110	Glutrin .....	..	..	..	..	..	..
8112	Bentonite .....	..	..	..	..	..	..
8109	Jumbo .....	..	..	..	..	..	..
8111	Seacoal .....	..	..	..	..	..	..
8083	Linoil .....	..	..	..	..	..	..
	
	
	

FOUNDRIY COSTS

EXHIBIT "D"—HOME OFFICE CAR COST

PART NAME	Part Number ITEM 13	Unit	Cost Difference Mtl.	Average Material	Standard Hours	Labor Dollars	Overhead	Total Cost
Type of Moulding Dry Sand	Lbs.	1.50	.....	40.50	.....	.....	.....	.....
Metal—Type 24	27	.....	.....	11.20	.....	.....	.....	.....
Spoilage	27	.20	.....	5.40	.....	.....	.....	.....
Electrodes	.....	.....	.....	.....	.....	.....	.....	.....
Fuel Coal	.....	.....	.....	.....	.....	.....	.....	.....
Total Materials	.....	.....	.....	57.10	.....	.....	.....	.....
Labor Melting	.....	.....	.....	2.00	.....	2.00	15.00	.....
Dept	.....	.....	.....	.....	.....	.55	2.65	.....
Spoilage	27.65%	.....	.....	57.10	2.55	2.55	17.65	77.50
METAL COST AT SPOUT	.....	.....	.....	.....	.....	.....	.....	.....
Labor—Pouring	.....	.....	.....	.....	30.00	31.50	34.65	.....
Cleaning	27.65%	.....	.....	.....	8.30	8.71	9.33	.....
Spoilage	.....	.....	.....	.....	25.00	26.25	28.88	.....
Dept 43C	2.50%	.....	.....	.....	.53	.66	.72	.....
Spoilage	.....	.....	.....	.....	5.00	5.00	8.76	.....
Heat Treat	2.50%	.....	.....	.....	.13	.13	.22	.....
Spoilage	.....	.....	.....	.....	69.05	72.25	82.80	155.03
POURING AND CLEANING COST	.....	.....	.....	.....	.....	.....	.....	.....
Materials—Cores	14.50	.50	.....	7.25	.....	.....	.....	.....
Moulds—Sand	.....	.....	.....	.....	.....	.....	.....	.....
Moulds—Permanent 1 Mould	.....	.....	.....	.....	.....	.....	.....	.....
Spoilage	27.65%	.....	.....	.....	.....	.....	.....	.....
Labor—Cores and Moulds	.....	.....	.....	3.39	.....	.....	.....	.....
Spoilage	27.65%	.....	.....	.....	20.50	21.00	23.10	.....
Dept 43M	.....	.....	.....	.....	8.83	5.31	8.39	.....
CORE AND MOULD COST	.....	.....	.....	15.6	25.53	26.31	29.49	71.94
TOTAL COST EXCLUDING SPOILAGE	.....	.....	.....	.....	.....	.....	.....	.....
SPOILAGE	.....	.....	.....	.....	.....	.....	.....	.....
TOTAL COST INCLUDING SPOILAGE	.....	.....	.....	14.59	15.14	15.86	19.56	50.01
Gross Castings Poured.	.....	.....	.....	72.74	97.14	101.61	125.94	304.29
Net Good Castings	.....	.....	.....	.....	.....	.....	.....	.....
ANALYSIS	.....	.....	.....	.....	.....	.....	.....	.....
Material cost	.....	.....	.....	.....	.....	.....	.....	.....
Melting cost	.....	.....	.....	.....	.....	.....	.....	.....
Metal cost at spout	.0211	.....	.....	.....	.....	.....	.....	.....
Pouring and cleaning cost	.0075	.....	.....	.....	.....	.....	.....	.....
Core and mould cost	.0286	.....	.....	.....	.....	.....	.....	.....
Total Cost Including Spoilage	.0876	.....	.....	.....	.....	.....	.....	.....
	.1127	.....	.....	.....	.....	.....	.....	.....

Exhibit "D" (continued)

180

FOUNDRY COSTS

Exhibit "E"

MOULDING DATA

*DATE.....

*Information to be supplied by Foundry relative to new parts, experimental parts and current parts when moulding method changes.

*TYPE OF METAL

No. 4	Camshaft
No. 7	Crankshaft
Cast Iron	Push Rod

*MELTED BY ELEC. FURNACE

A	D	G
B	E	H
C	F	I

BRACKELSBURG

No. 1

No. 2

*TYPE OF MOULDING

*Green Sand	Turn Table Speed
*Dry Sand Spinning	*Type of Holder
*Die	

*Castings Per Cluster *Castings Per Mould

*Poured Weight Per Mould Poured Weight Per Casting

*Cleaned Weight Per Casting

CORE DATA

	Cope or Top	Drag or Bttm.	Riser	Splash	Gate	Pin	Center	Pour'g. Cup Or Basin	Strainer	Slab	Special
*Cores per Flask or Holder
*Weight per Core
Cores per Casting.
Produced: Turn table
Osborn
Rollover
Hand
Silica Spray or Dip
Graphite Dip
Cores per Box
Cores per Drier
Cores per Oven
Plate

*TYPE OF SAND MIX *CHECKED BY—

REMARKS:

*PART NAME—

*PART NUMBER—

Exhibit "G"

PRODUCTION REPORT

[illegible]

Glimpses of Current Accounting Literature

A Summary Prepared by J. D. Campbell,
Chartered Accountant

BULLETINS

(1) General Accounting

Premium on Redemption of Preferred Stock—The Securities and Exchange Commission (U.S.) release No. 45, Accounting Series reproduced in the July 1943 issue of *The New York Certified Public Accountant* (15 East, 41st Street, New York), contains the following opinion expressed by William W. Werntz, chief accountant, on the treatment of premiums paid on the redemption of preferred stock: "where the redemption price exceeds the amount paid in on the shares, the excess should ordinarily be charged to earned surplus. Any amounts paid on account of accumulated unpaid dividends should likewise be charged to earned surplus. Where less than an entire issue of preferred stock is redeemed it would ordinarily not be proper to charge capital surplus contributed by the preferred stock for an amount per share in excess of the prorata portion of such capital surplus applicable to each share of preferred stock outstanding prior to the redemption. No objection is seen to utilizing capital surplus arising from prior reacquisitions and retirement of preferred and common shares for absorbing the excess of the redemption price over the amounts paid in, as such capital surplus does not represent amounts paid in on shares still outstanding."

(2) Cost Accounting

Volume XXIV, No. 22, 15th July 1943 issued by the National Association of Cost Accountants (385 Madison Avenue, New York), presents two articles covering topics on a phase of business history which is significantly looming on the present horizon. They are concerned with the Termination of War Contracts and Preparation for Post War Progress.

War Contract Termination—Eric A. Camman in "War Contract Termination" discusses the tentative draft of a uniform termination clause suitable for incorporation in all war contracts which was prepared by a subcommittee set

up by the Procurement Division of the War Production Board, (U.S.). The prime objectives of the uniform termination clause suitable for incorporation were to eliminate the uncertainties of contractors as to the treatment of their contracts upon cancellation, and to speed up and simplify the settlement of terminated contracts so as to facilitate the return to peacetime production and employment. The article presents a general review of the various sections contained in the draft agreement followed by a summary criticism and suggestions on certain of the questionable provisions. In concluding Mr. Camman advances the following advice: "For your part you who are responsible for the accounts of your companies should also take this problem into consideration and see to it that the records and the measures of internal check are such as to facilitate audit."

Post-War Progress—Leo M. Cherne in "Preparation For Post-War Progress" paints a vivid but nevertheless realistic picture of the problems which will face private enterprise in general once the armed forces have fulfilled their promise of removing the Axis menace. "It will be up to business to usher in a period of sustained economic production at a level providing full employment and to maintain this pace after the transition to a full peace economy." In analyzing the position of the accountant in the post-war plan, it is pointed out that "it is in these two fields—economy of operations and the formulation of long run financial policies—that the accountant can perform a function most useful both to the company and to the community for the post-war period". In covering certain specific aspects of the above mentioned fields the problems involving the inflationary potential of deferred demand, devaluation, post-war cost control, corporate capitalization planning and post-war marketing are each discussed in detail. In closing Mr. Cherne clearly points out that if private enterprises do not gear themselves to find the solution for the various post-war problems discussed then "this is the last chance for private enterprise."

Budgeting (Post-War)—Volume XXIV, No. 23, 1st August 1943 presents an article by V. Richard Bichtel, budget director of the American Cyanamid Company, in which a concrete and specific example is presented illustrating the nature and manner of preparation of a company's budget

covering the period of transition from war to peace. The budgets presented cover two periods namely a Short-time War budget and a Short-time Post-war budget each of which are subdivided into an income budget and a cash budget. The Short-time War budget is drafted reflecting present conditions whereas the Short-time Post-war Budget represents tentative plans which will be ready for adoption by the management on short notice. The major items entering into each of the different budgets are discussed as sales, sales forecasts and cost estimating together with the general problems arising from the preparation of the cash budget.

ARTICLES

(1) Inventories

Victor H. Stempf in an article "Inventory Principles and Practice" published in the June 1943 issue of *The New York Certified Public Accountant* covers quite inclusively but simply the questions adhering to the item of inventories viewed accountingwise. The following outline of the general headings under which the article is presented serves to indicate its inclusive aspect—What is the Inventory Process?—What is Cost?—What is Market?—Perpetual Inventory Records—Inventory Auditing—War Complications.

A discussion of the problems arising in the field of pricing of inventories covers the major portion of the article. Although detailed discussions are presented on the various interpretations placed on the term 'cost' as to first-in first-out (Fifo), last-in first-out (Lifo), and the highest-in first-out (Hifo) special attention is diverted to the use of standard costs with price and efficiency variance analyses both from the standpoint of cost determination and cost control. The final conclusion is drawn covering the question of underabsorbed burden arising through the use of standard costs—"The excess of actual over standard should become a 'period' cost and not a 'product' cost. In other words such excess should be absorbed in current operations and should not become a part of inventory". In considering the question of 'cost or market' it is clearly pointed out that the principal aim in considering various accounting expedients to replace this theory is "to reduce to a minimum the fluctuations in profit and loss arising from price changes".

Under the general topic of inventory taking, special stress is placed on the adaptability of perpetual inventory records supplemented by the 'staggered count'. In closing Mr. Stempf states "the present war will accelerate the adoption of sound perpetual inventory records subjected to continuous staggered check, reconciliation, and adjustment".

(2) Cost Systems

The August 1943 issue of *Cost and Management* (66 King Street East, Hamilton), carries an article by Joan Tomkinson "Costing for a Catering Business" reprinted from *The Australian Accountant*. The specific costing problems connected with the catering business are presented against a background of an illustration of the actual mechanics of the various cost ledger accounts involved. Special attention is diverted to the simplified use of the burden rate with the attendant over and under absorbed charges to operations.

(3) Depreciation

Walter Hill, the editor of the London *Economist*, in an article "Income Tax Relief For Britain's Industry" published in the July 1943 issue of *Taxes—The Tax Magazine* (Commerce Clearing House Inc., 214 N. Michigan Ave., Chicago), outlines the British taxpayer's depreciation problems under the British income and excess profit tax law. "The need for replacement will be heavy; but the excess profit tax and the high rate of income tax are rendering difficult the accumulation of large reserves for this purpose." The major problems discussed adhere fairly closely to the current depreciation problems which are met by the Canadian taxpayer such as deferred repairs, replacements and financing expansion. In discussing the "wear and tear plus obsolescence" system re depreciation it is pointed out that not only is an annual charge to operations allowed representing a percentage of value, but relief is also given for obsolescence when replacement takes place in respect to the undepreciated portion of the asset provided an equivalent amount has been actually spent on the replacement asset. The question of depreciation rates is discussed with special reference to the changes resulting from the impact of the present war in the form of accelerated and special depreciation. Finally it is pointed out that "in order to insure the maintenance of efficiency, it may therefore be advantageous

to adopt the tax relief system to this end, to use it as an instrument for facilitating and encouraging replacement."

(4) Accounting and Income Tax

The July 1943 issue of *The New York Certified Public Accountant* carries an article "Accounting Principles and The Administration of The Federal Income Tax Law" by Milton Rindler in which case examples are used to illustrate the fact that although the federal income tax laws have been drafted in accounting terminology, accountants in most cases have not been called upon to present their specialized interpretation. The result is that "the accounting profession has become an interested spectator instead of a participant in the formulation of accounting principles as they affect the computation of net income". The cases cited cover a variety of instances where the interpretation placed on income by the Courts and the Commissioner varies widely from the interpretation which would be placed on the item by an accountant. In one instance cited covering the question of accrual it was ruled by the taxing authorities that an advance payment for a ten-year lease represented income in the year of receipt. The article clearly indicates that it is incumbent upon the accountant to actively enter upon the role assigned to him by the income tax law. "The accounting profession must formulate at least those principles of accounting which are in use in the preparation of statements of net income. The accountants as a body should be prepared to defend those principles against attack and destruction and to vehemently protest the infusion into tax procedures of principles unacceptable to the majority of accountants."

Provincial News

ALBERTA

The thirty-third annual meeting of The Institute of Chartered Accountants of Alberta was held on 26th June 1943. The following members were elected to council for the ensuing year: B. G. Aylen, James A. Henderson, H. E. Howard, K. C. Huckvale, M. C. McCannel, K. J. Morrison, W. F. Reid, W. G. Skinner and F. A. Smith. The following appointments were also made: Representative on the Faculty Council of the School of Commerce of the University

of Alberta, J. A. Henderson; representatives on the council of The Dominion Association of Chartered Accountants, B. G. Aylen, W. G. Skinner, K. J. Morrison; honorary auditor, J. M. Tweddle.

The council's action was approved in establishing two scholarships at the School of Commerce of the University of Alberta—Cecil Ethelbert Race Memorial Scholarship and The Institute of Chartered Accountants of Alberta Scholarship. The meeting decided to continue to offer the sum of \$25 for articles accepted for publication in THE CANADIAN CHARTERED ACCOUNTANT.

At the annual meeting members stood in silence for one minute in tribute to the memory of those members who had passed on during the year, namely: George Percy Blythe, F.C.A., Ernest Bell Butler, C.A., Austin H. Carr, M.A., C.A., Douglas Keith, C.A., and William Robertson, C.A.

At the first meeting of the newly elected council the following officers were elected: W. G. Skinner, president; W. F. Reid and C. K. Huckvale, vice-presidents, and M. C. McCannel, secretary-treasurer.

The luncheon address was delivered by Dr. Robert Newton, president of the University of Alberta, who chose for his subject "New Lamps for Old". His Honor Lt. Gov. Bowen presented certificates to the successful candidates, Samuel F. Marshall, B. Com., Edmonton, and Alton B. Ross, Calgary. In addition, the following were successful in passing the final examination and will be admitted to membership upon completion of articles: Albert P. Freison, Lethbridge, Edward King, Edmonton, and John M. Meikle, Edmonton. Prizes for the intermediate and primary examinations were also presented by Lt. Gov. Bowen and were awarded to W. L. C. Wallace and John Rudolph, both of Calgary.

BRITISH COLUMBIA

The thirty-eighth annual meeting of The Institute of Chartered Accountants of British Columbia was held in the Hotel Vancouver, at Vancouver on Friday, 16th July 1943. Mr. Wm. Macintosh, president of the Institute for the past year, occupied the chair. The president's report and those of the various committees dealing with the year's

activities of the council were submitted and adopted. An amendment to the by-laws was passed (by-law 50) making a slight change in membership fees to bring these into conformity with the practice of the Dominion Association.

The following members were elected to the council for the ensuing year: C. G. Chambers, V. R. Clerihue, R. C. Field, R. R. Keay, Wm. Macintosh, J. J. Plommer, W. G. Rowe, D. H. Sheppard, L. R. Sinclair, B. E. Stokes, John Watters and J. Haydn Young.

A lengthy discussion took place regarding the rehabilitation of students now serving with His Majesty's forces. The chairman explained that a special committee had been studying the matter, but had not submitted a formal report. Mr. R. R. Keay stated that he and Mr. A. H. Rathie had two thoughts on the matter (1) amending the by-laws for the substitution of the present form of articles and (2) that a pool should be formed by the Institute of all students leaving His Majesty's Forces and desiring to renew articles, for the purpose of distributing them among the several practising members. A wide divergence of opinion developed between those who took part in the discussion. Of course, all were agreed that men returning from the forces would have to be accommodated, but the proposal for a pool did not meet with general approval. However, the chairman stated he thought that, in view of the discussion, the incoming council should have sufficient data to formulate a policy which would be submitted to the members in general meeting for their decision.

In the afternoon, the members, together with members of other Institutes resident in Vancouver, availed themselves of the facilities of the Point Grey Golf and Country Club, after which the Institute was host at an informal dinner. In welcoming the guests at the dinner, the chairman took the opportunity to express to the principal guest, Mr. Norman Lee, income tax inspector at Vancouver, the high personal regard in which he is held.

Membership certificates were presented to Messrs. A. H. Affleck and H. M. Bain, who were successful in passing the recent final examination. The chairman stated that certificates had already been supplied to Messrs. F. G. Copithorne, A. M. Reid and J. E. Robertson.

MANITOBA

The members of The Institute of Chartered Accountants of Manitoba held their fifty-seventh annual meeting on Wednesday, 30th June 1943 at the Fort Garry Hotel, Winnipeg. The president, Mr. William Gray, was in the chair.

The annual report of the council and accounts for the year ended 31st May 1943 were received, and other business transacted. In connection with the accounts the president pointed out that the council had established the nucleus of a fund to be used for the purpose of assisting members and students returning to their duties after the war. He also called attention to an amendment to the by-laws whereby a member in good standing of another institute or society of chartered accountants in the Dominion of Canada might be admitted to this Institute without payment of an entrance fee. The president reported that in connection with certain proposed amendments to the Manitoba Law Society Act which it was felt might be interpreted as interfering with the work of the members of the Institute, representations had been made by the council which resulted in the following sub-section being inserted in the Act: "This section shall not be construed so as to prohibit . . . any chartered accountant from preparing for any person by whom he is employed any document or portion thereof dealing with the accounting affairs of such person."

The names of forty-eight members and ninety-eight students serving with His Majesty's Forces were read to the meeting, and the secretary was instructed to send cigarettes, with the greetings of the annual meeting, to all members and students serving overseas.

The members elected to serve on the council for the two-year term ending 31st May 1945 were Messrs. R. T. Cunningham, Frederick Johnson, Carleton Lynde, Walter J. Macdonald, R. A. Roberts, Frederic J. Tibbs and E. J. Williams. The members of the council who continue in office until May 1944 are Messrs. A. Gray, William Gray, H. M. Hoover, J. Gray Mundie, John Parton, D. Sprague and William Young. Mr. D. S. Lofthouse was re-appointed auditor.

The following officers were elected by the new council:

Mr. E. J. Williams, president; Mr. R. T. Cunningham, vice-president, and Mr. R. A. Roberts, secretary-treasurer. The representatives elected to the council of The Dominion Association of Chartered Accountants are: E. J. Williams, R. T. Cunningham and William Gray.

During the luncheon which followed the business meeting the president, Mr. William Gray, extended a welcome to the following members of His Majesty's forces who were present: Pay Sub-Lt. Douglas A. McKay, Pay Sub-Lt. William H. Gray and LAC Allan Irvine, and a very special welcome to Major Raymond Dunwell who had, the day before, returned from two years' service overseas.

The president congratulated Mr. John Parton on his completing thirty years' service on the council and also Mr. Walter J. Macdonald who had served for twenty years. He also expressed the pleasure of the members in having as their guests two honorary members of the Institute, Dr. W. J. Spence and Mr. A. L. Crossin. On behalf of the Institute Dr. Spence presented a prize of books to Mr. Halldor S. Bardal who had gained second place amongst the Manitoba candidates in the final examination of December 1942 and the W. A. Henderson silver medal to Mr. Gordon K. Gage who ranked highest amongst the Manitoba candidates in the intermediate examination. Unfortunately Mr. James A. Hillman, the winner of the first prize of \$100 in the final examination, was not present to receive his prize at the hands of Dr. Spence.

The following who had been members of the Institute for twenty-five years or more were asked by the president to stand and receive the congratulations of the members: Messrs. A. L. Crossin, W. D. Love, John Parton, John D. Reid, Ewen Rankin, T. W. Saul, Walter J. Macdonald and R. A. Roberts.

Mr. Walter J. Macdonald, on behalf of the members of the Institute, paid high tribute to the valuable services rendered for many years by the retiring president, Mr. William Gray, to the Institute in all branches of its work. Mr. Gray had been a member of the Institute for thirty-one years and had served on the council for sixteen years, and during that time had taken special interest in the education of students, and the high standard attained by the students of this Institute was due in large measure to his energy and devotion.

The Manitoba Chartered Accountants' Benevolent Association held its eleventh annual meeting immediately preceding the annual meeting of the Institute. Mr. E. J. Williams, chairman of the Board of Trustees, took the chair. The trustees' statement showed that the funds of the Association now exceeded \$5,000. The following were elected trustees for the year ending 31st May 1944: Messrs. James W. Abbott, R. Vernon Fletcher, T. H. Rathjen, Frederic J. Tibbs and E. J. Williams. Mr. D. S. Lofthouse was re-appointed honorary auditor.

Votes of thanks were passed to the council for continuing to bear all the expenses of the Association, and to Mr. Lofthouse the honorary auditor, and Mr. R. A. Roberts the honorary secretary-treasurer.

NEW BRUNSWICK

At the annual meeting of The New Brunswick Institute of Chartered Accountants held 2nd August 1943 the following officers were elected for the year 1943-44: R. S. FitzRandolph, president; David Reevey, vice-president, and H. L. McMackin, secretary-treasurer. The following members were also elected to the council of the Institute: A. G. Burnham, R. E. Cox and G. A. Oulton. Messrs. K. W. Dalglish and T. J. Hammett were elected representatives on the council of The Dominion Association of Chartered Accountants.

NOVA SCOTIA

On June 14th, 1943, a representative gathering of the members of The Institute of Chartered Accountants of Nova Scotia met at the Lord Nelson Hotel, Halifax, for the annual meeting and dinner of the Institute. The number in attendance was very encouraging considering the fact that nearly twenty per cent of our members are in the armed forces.

The interest being taken in our annual meetings speaks well for the future of the profession in Nova Scotia. The president reported that the membership was the highest in the history of the Institute.

Tribute was paid to those of our membership who are in uniform serving their King and Country and also to the

registered students who have given up their studies to enlist in the various branches of the armed services.

The following officers were elected: L. J. Wilson, president, J. C. Nicoll, vice-president, and L. E. Peverill, secretary-treasurer. The following were also elected to council: A. M. Butler, H. R. Doane, H. J. Egan, G. E. Hayman, T. H. Johnson, G. E. Martin, W. A. Morrell, L. E. Peverill and F. L. Silver. The representative on the council of The Dominion Association of Chartered Accountants is L. J. Wilson and a second delegate is to be named by council.

ONTARIO

The members of The Institute of Chartered Accountants of Ontario held their sixtieth annual meeting at the Royal York Hotel, Toronto, on Friday, 25th June. Mr. F. C. Hurst, in welcoming the members to the meeting, referred to the part chartered accountants must take in helping to solve the many post-war problems of our country. He said in part, "We can take a real part in planning the world of the future, if we are willing to become the conscience of industry and finance. Because of our special training, coupled with our intimate knowledge of facts and figures, the men of business, finance and governments will undoubtedly seek our advice more and more in helping them solve the perplexing problems of the future. As the conscience of both capital and labour we can help make the wealth and work of this world available for all and for the exploitation of none. Then, and then only, will the reconstruction of the world be built on sound moral, as well as on sound financial foundations."

The report of the Council and the financial statement showed that progress had been made during the year. The election of Council for the year 1943-44 had the following results: K. LeM. Carter, W. H. Caulfield, R. C. Cowle, A. G. Edwards, Henry Glover, R. R. Grant, H. P. Herington, W. F. Holding, E. J. Howson, F. C. Hurst, C. G. McConnell, A. R. McMichael, C. A. Patterson, S. G. Richardson and W. A. Staples. The officers of the Institute, who were elected at a Council meeting following the annual meeting, are: President, R. R. Grant; 1st vice-president, E. J. Howson; 2nd vice-president, C. A. Patterson; and secretary-treasurer, A. R. McMichael. The three

senior officers were appointed representatives on the Dominion Association Council. Messrs. S. E. Parker and M. F. Pridham were appointed auditors for the ensuing year.

A lengthy discussion with regard to the post-war period as it pertains to our registered students returning after the war, along with returned soldiers generally, took place, the matter being left to the special committee appointed to consider the question in all its aspects.

It was resolved not to hold the annual supper dance, and the money usually spent in this entertainment was voted to the following six war charities: Canadian Red Cross, \$500; British War Victims' Fund, \$100; British Bomb Victims' Fund, \$100; Greek War Relief Fund, \$100; Chinese War Relief Fund, \$100; Canadian Aid to Russia Fund, \$100.

On account of the gasoline rationing, the golf tournament was not held.

It is with deep regret that we announce that P/O R. L. R. Hepburn, admitted to membership in 1940, was killed in flying operations on the east coast of England. Sgt. J. M. Storey, who enlisted with the Brockville Rifles, was killed on army manoeuvres at camp in Alberta. One member, P/O J. S. Renouf, has been reported missing after an operational flight over Germany. We record with deep regret the death during the year of five other associate members: A. W. Adams, W. H. P. Anderson, G. deH. Cunningham, H. A. Malcolmson, C. E. Walker and one fellow and past president of the Institute, R. J. Dilworth.

PRINCE EDWARD ISLAND

The annual meeting of The Institute of Chartered Accountants of Prince Edward Island was held June 18th, 1943, and the following officers and council were elected: W. A. Morrell, president; T. Earle Hickey, vice-president; N. W. Higgins, secretary-treasurer. The following were also elected to the council of the Institute for the coming year: W. A. Morrell, T. Earl Hickey, N. W. Higgins, F. L. Belyea, H. E. Crowell and T. H. Johnson. The representatives on the council of The Dominion Association of Chartered Accountants are Messrs. W. A. Morrell and W. E. Massey.

QUEBEC

The sixty-second annual meeting of The Society of Chartered Accountants of the Province of Quebec was held in the assembly room of The Royal Bank of Canada, Montreal, on Wednesday morning, June 23rd. The addresses of Mr. Alfred Smibert, the retiring president, and his successor, Mr. C. F. Elderkin, appear elsewhere in this issue. The following are the officers and members of council for the year 1943-44: C. F. Elderkin, president; Harrison C. Hayes, first vice-president; Colonel P. F. Seymour, second vice-president, and Frank E. H. Gates, honorary secretary-treasurer. Members of council for two years: J. Fulton Camelford, R. J. P. Dawson, C. N. Knowles, A. E. Pierce and G. A. Sharp. Members of council who still have one year to serve: T. V. Burke, A. E. Beauvais, A. W. Gilmour, John A. Ryan and L. E. Potvin.

The report of the president and council showed that the membership of the Society at 31st May 1943, including ninety-two members in His Majesty's Forces, totalled seven hundred and forty, being an increase of fifty-four during the year. Students registered with the Society numbered five hundred and one, including two hundred and twenty-one students in the active forces. THE CANADIAN CHARTERED ACCOUNTANT is being sent at the expense of the Quebec Society to all members in the armed forces who wish to receive it.

The library has been used extensively during the year, the number of books borrowed being 1,679, and an amount of \$686.51 was spent on the purchase of 214 new books, tax services, binding of books, etc.

The council again authorized a grant of \$25.00 to any member or registered student writing an article of two thousand words or over especially for the magazine, accepted by the editor and published by THE CANADIAN CHARTERED ACCOUNTANT during the year, and urged the members to contribute articles of interest to the profession.

The Superior School of Commerce of Quebec (l'Ecole Supérieure de Commerce de Quebec) is arranging evening courses in accounting and auditing which the council considers will be of great benefit to those students residing in the City of Quebec.

Following the usual custom the August meeting of council was held at the Boischatel Golf Club in Quebec. The business of the meeting was transacted during the morning, after which a very enjoyable luncheon, well attended by Quebec members, was held. Mr. Kris A. Mapp, president of The Dominion Association of Chartered Accountants was the guest of honour. In the afternoon the members of council played the Quebec members for the Quebec Chartered Accountants' Golf Cup, which was won last year by Harry Hayes. The cup was recaptured for Quebec by John Felix O'Neill. The Quebec members headed by Mr. G. H. Boulet, president of the Quebec city committee, excelled themselves in their welcome and the council spent a very pleasant day in old Quebec.

SASKATCHEWAN

The annual meeting of The Institute of Chartered Accountants of Saskatchewan was held on 26th June 1943. The following officers were elected for the ensuing year: Thos. H. Moffet, president; W. Givens Smith, vice-president, and E. C. Gerry, honorary secretary-treasurer. The following were also elected to council for a term of two years. Walter C. Jeffery, Thos. H. Moffet, E. A. Rawlinson and Thos. R. Wilder. Other councillors are: C. P. DeRoche, Geo. G. Patrick, W. T. Scott, Clair H. Smith and W. G. Smith. Messrs. C. P. DeRoche, Thos. H. Moffet and W. Givens Smith are the representatives on the council of The Dominion Association of Chartered Accountants. A fellowship of the Institute was granted to George G. Patrick.

PERSONALS

Graham H. Morton, member of the Institute of Chartered Accountants of Alberta, has opened an office for the practice of his profession as a chartered accountant at 304 Lancaster Building, Calgary, Alberta.

Messrs. McIntosh and Harder, chartered accountants, announce the removal of their office from 311 Bank of Nova Scotia Building to 514 Standard Bank Building, Vancouver, British Columbia.

STUDENTS' DEPARTMENT

R. G. H. SMAILS, C.A., Editor

NOTES AND COMMENT

A special committee has been set up "to consider and report what major amendments are desirable in the (British) Companies Act, 1929, and in particular to review the requirements prescribed in regard to the formation and affairs of companies and the safeguards afforded for investors and for public interest". This new review of company law in Great Britain (the last was made in 1925-26) is dictated by evasive practices which have developed in recent years and by changes that have taken place in industrial and commercial practices. "It is", as one financial editor remarks, "not merely a matter of protecting the investing public against exploitation or of protecting the public as a whole against specific abuses. A much larger question is involved. So long as companies are not compelled by law to make full and detailed disclosure of genuine profits and reserves of every variety, open or hidden, the machinery of investment is unable to lend public savings into the industries where they can be most economically employed".

The report of the committee will be awaited with interest by all those in this country who are concerned with corporation accounting and financing, for although the Dominion Act of 1934 represented an advanced piece of legislation no one would claim that it accomplishes (in regard to publicity) all that can be done or needs to be done. It is perhaps too much to hope that this latest review of company law will induce the Ontario legislature to do something about the archaic Companies Act of that province. It is certainly a blot on the Canadian escutcheon that the province which is the wealthiest and most highly industrialized in the country should still be operating, without comprehensive revision, an act designed to fit the conditions prevailing more than a quarter of a century ago.

* * *

Professor Pigou recently contributed to the British press a note on what might be called the economic consequences of the Beveridge Plan, that is to say of a plan for

transferring command over resources from one set of persons to another set. Such a transfer, he points out, does not directly use up any productive resources but it may, especially if the general level of taxation is high, indirectly hamper industrial enterprise. He expresses the personal feeling, however, that "in an evaluation of the whole case for and against the Beveridge proposals" the weight assigned to this risk should not be large. Nor does Professor Pigou believe that a system of social security will promote idleness on a significant scale. But he is greatly concerned lest trade unions "being aware that men out of work will be well looked after, may push claims for wage advances without regard for the fact that such action, if pressed too hard and too long, is bound to evoke either monetary inflation or industrial unemployment". To this risk he considers that very great weight ought to be assigned.

* * *

While accountants are disputing in the rarified atmosphere of accounting principles there are still encountered here and there examples of rudimentary technical errors which obfuscate the significance of accounting reports and provoke a sense of frustration in the layman. In this category we would place the practice of grouping on the credit side of a balance sheet under the heading of "Reserves" the balance of every ledger account which happens to have in its title the word "reserve". There may be confusion in the terminology in respect to reserves but every reserve balance is susceptible to classification as either a liability, an asset valuation account or a form of surplus and in our opinion the responsibility for making this classification rests on the accountant who is preparing the statement. Having made it, he should group liability reserves with the liabilities, deduct asset valuation reserves from the assets to which they relate and include proprietorship reserves under the heading of capital and surplus. It is no answer to this complaint to retort that the reader can effect the classification and distribution for himself. It is not a part of his job and moreover, all too frequently, the titles under which reserve balances are published leave him in genuine doubt as to the appropriate classification. The accountant is the only one who has the requisite inside knowledge and it is surely his business to apply that

knowledge to making accounting reports as clear and intelligible to laymen as they can be made.

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STUDENTS' ASSOCIATION NOTES

PROVINCE OF QUEBEC

The annual meeting of the Chartered Accountants Students' Society of the Province of Quebec was held in the Windsor Hotel, Montreal, on Wednesday, 30th June, at which the following officers were elected: R. J. P. Dawson, C.A., president; John C. Newland, C.A., vice-president; D. A. Menard, C.A., treasurer and John Macdonald, secretary. The following were also elected to the committee: C. H. Bray, C.A.; L. E. Boissonault, C.A.; Maurice Brain; A. I. Davidson; Emory Grearson; R. E. Lambert; Miss E. M. Lauder; E. McNeil, C.A.; James Tildesley, plus two representatives of the senior council. Honorary presidents are: C. F. Elderkin, C.A.; Alfred Smibert, C.A., and John F. Lewis, C.A.

Mr. John F. Lewis, the retiring president, reviewed the activities of the year and expressed his appreciation of the help he received from the members of the executive committee during his term of office. He also made special mention of the excellent relations which have been maintained with the council of the senior Society, stating that he felt the Students' Society had strengthened its position during the year by being of some assistance to the parent Society in improving the courses of study.

Mr. Lewis also stressed the need for post-war planning for the students at present in the active forces, saying: "When we realize that nearly half of our registered students are on active service, we can perhaps appreciate the magnitude of the problem which will definitely arise in the endeavour to have these students complete their required studies and pursue their chosen profession when they return. After being away for such a long time from the applied habit of studying, planning towards assistance of our members who will be returning from active service should be uppermost in our minds, and no effort should be spared to encourage their ultimate goal." He mentioned that this matter is on the agenda for consideration by the incoming executive committee, and suggested that a perm-

anent committee be set up to instigate studies on this subject.

The lectures on income tax given last fall by Mr. Arthur Gilmour, which were also thrown open to the public had been much appreciated, said Mr. Lewis, as were notes on the Income War Tax Act, etc., which had been printed in booklet form, and the Students' Society would be glad if Mr. Gilmour will find it convenient to give another series of lectures on this important subject in the fall and revise his notes to include the 1943 amendments to the tax acts.

The membership of the Society at 31st May, including two hundred and two chartered accountant members and one associate member, was seven hundred and four. It was noted that two hundred and twenty-one students are at present in His Majesty's forces, and honour rolls on which their names are inscribed are hanging in the Society's offices. A large number of the students in the forces are receiving THE CANADIAN CHARTERED ACCOUNTANT at the expense of the Students' Society and cigarettes were sent to fifty-seven members on active service overseas. Acknowledgments received indicate that this small remembrance is greatly appreciated. In closing Mr. Lewis paid tribute to the students who have given their lives in the service of their country.

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PROBLEMS AND SOLUTIONS

THE PROVINCIAL INSTITUTES OF CHARTERED ACCOUNTANTS

Solutions presented in this section are prepared by practising members of the several provincial Institutes and represent the personal views and opinions of those members. They are designed not as models for submission to the examiner but rather as such discussion and explanation of the problem as will make its study of benefit to the student. Discussion of solutions presented is cordially invited.

PROBLEM I

INTERMEDIATE EXAMINATION, DECEMBER 1942

Accounting 1, Question 3 (15 marks)

Following are the balance sheets of companies A and B.

	<i>Assets</i>	
	Company A	Company B
Cash	\$ 90,000	\$ 10,000
Merchandise		30,000
Machinery		25,000
	<u>\$ 90,000</u>	<u>\$ 65,000</u>

STUDENTS' DEPARTMENT

<i>Liabilities</i>		
Accounts payable		\$ 25,000
Share capital	\$ 75,000	50,000
Surplus	15,000	*10,000
	<u>\$ 90,000</u>	<u>\$ 65,000</u>

*Deficit.

Company A purchases for \$38,000 (cash) a 90% interest in company B.

Required:

Prepare (a) consolidating working paper showing eliminations, and (b) consolidated balance sheet.

SOLUTION

Consolidating Working Paper				
Assets	Company A	Company B	Elimination	Consolidated Balance Sheet
Cash	\$52,000.00	\$10,000.00		\$ 62,000.00
Investment in Company B	38,000.00		\$38,000.00	
Merchandise		30,000.00		30,000.00
Machinery		25,000.00		25,000.00
Goodwill			2,000.00	2,000.00
	<u>\$90,000.00</u>	<u>\$65,000.00</u>	<u>\$36,000.00</u>	<u>\$119,000.00</u>
<i>Liabilities</i>				
Accounts payable		\$25,000.00		\$ 25,000.00
Share capital	\$75,000.00	50,000.00	\$50,000.00	75,000.00
Surplus	15,000.00	10,000.00	10,000.00	15,000.00
Minority interest			4,000.00	4,000.00
	<u>\$90,000.00</u>	<u>\$65,000.00</u>	<u>\$36,000.00</u>	<u>\$119,000.00</u>

Consolidated Balance Sheet			
Assets		Liabilities	
Cash	\$ 62,000.00	Accounts payable	\$ 25,000.00
Merchandise	30,000.00	Minority Interest Co.	75,000.00
Machinery	25,000.00	B, (10%)	4,000.00
Goodwill	2,000.00	Share capital	75,000.00
		Surplus	15,000.00
	<u>\$119,000.00</u>		<u>\$119,000.00</u>

PROBLEM II

FINAL EXAMINATION, DECEMBER 1942

Accounting III, Question 2 (30 marks)

X Company Limited is a holding company which owns all the issued stock of Y Enterprises Inc., a company whose assets and properties are located in the United States and whose records are maintained in United States currency. The trial balances of these companies at 31st December 1941 are shown hereunder:

THE CANADIAN CHARTERED ACCOUNTANT

	X Company Limited (Canadian dollars)	Y Enterprises Inc. (United States dollars)
Debits:		
Cash on hand and in banks	\$ 300,000	\$ 300,000
Accounts receivable		1,500,000
Inventories at 1st January 1941		1,200,000
Purchases and manufacturing expenses ..		6,000,000
Property, plant and equipment		5,000,000
Investment in subsidiary company	5,000,000	
Expenses	10,000	1,000,000
Provision for depreciation		200,000
Dividends paid	100,000	100,000
United States withholding tax on dividends	5,500	
Provisions for taxes on profits		300,000
	<u>\$5,415,500</u>	<u>\$15,600,000</u>
Credits:		
Accounts payable		\$ 500,000
Accrued liabilities		100,000
Reserves for taxes		305,000
Reserve for depreciation		1,100,000
Sales		8,000,000
Dividends received	\$ 110,000	
Capital stock	5,000,000	5,000,000
Surplus as at 1st January 1941	305,500	595,000
	<u>\$5,415,500</u>	<u>\$15,600,000</u>

The inventory of Y Enterprises Inc. as at 31st December 1941 is \$1,000,000. The United States dollar is to be taken at a premium of 10% at 1st January 1941 throughout 1941 and at 31st December 1941. The rate of exchange at the date the capital stock of Y Enterprises Inc. was acquired was par. There is no surplus at acquisition as the subsidiary was incorporated by X Company Limited. The corresponding Canadian dollar figures of the property, plant and equipment account and the reserve for depreciation at 1st January 1941 based on historical rates are as follows:

	United States dollars	Canadian dollars
Property, plant and equipment	\$4,500,000	\$4,600,000
Reserve for depreciation	900,000	920,000

The only changes during the year have been an addition of \$500,000 to the property account and the provision of \$200,000 for depreciation.

The surplus at 1st January 1941, converted at historical rates, amounts to \$600,000 Canadian dollars.

Required:

Prepare, on columnar paper, statements showing the profit and loss statement, the surplus account and the balance sheet of Y Enterprises Inc. in United States dollars, the conversion of such statements to Canadian dollars indicating the basis, and the consolidation of the accounts with the accounts of X Company Limited.

STUDENTS' DEPARTMENT

SOLUTION
X COMPANY LIMITED
AND ITS SUBSIDIARY COMPANY
CONSOLIDATING STATEMENT OF PROFIT AND LOSS AND SURPLUS
FOR YEAR ENDING 31ST DECEMBER 1941 SHOWING CONVERSION
OF UNITED STATES DOLLARS TO CANADIAN DOLLARS

Item	Y Enterprises Inc.	Conversion Rate	X Company Consolidating	
			Limited Dr.	X Company Cr. Consolidated
Sales	\$8,000,000	1.10	\$8,800,000	\$8,809,000
Cost of sales, exclusive of depreciation:				
Inventory as at 1st January 1941	1,200,000	1.10	1,320,000	1,320,000
Purchases and manufacturing expenses	6,000,000	1.10	6,600,000	6,600,000
Inventory as at 31st December 1941	7,200,000	1.10	7,920,000	7,920,000
	1,000,000	1.10	1,100,000	1,100,000
	6,200,000	1.10	6,820,000	6,820,000
Expenses	1,800,000	1.10	1,980,000	1,980,000
	1,000,000	1.10	1,100,000	1,110,000
	800,000	1.10	880,000	870,000
Dividends received	—		10,000	—
			110,000 (1)	\$110,000
Provision for depreciation	800,000	1.10	880,000	870,000
	200,000	Note I	213,000	213,000
	600,000		667,000	657,000
Provision for tax on profits	300,000	1.10	330,000	330,000
United States withholding tax on dividends			—	5,500
	300,000		330,000	335,500
Net profit for the year	300,000		337,000	321,500
Surplus as at 1st January 1941	595,000	Historical	600,000	905,500
Dividends paid	895,000		937,000	1,227,000
	100,000	Note III	110,000	100,000
Surplus as at 31st December 1941	795,000		827,000	\$1,127,000
			\$ 300,000	—

X COMPANY LIMITED
AND ITS SUBSIDIARY COMPANY
CONSOLIDATING BALANCE SHEET AS AT 31ST DECEMBER 1941
SHOWING CONVERSION OF UNITED STATES DOLLARS TO CANADIAN DOLLARS

Item	Y Enterprises Inc.	Conversion Rate	X Company Consolidating Limited entries		X Company Limited
			Dr.	Cr.	
Current Assets:					
Cash on hand and in banks	\$ 300,000	1.10	\$ 330,000	\$ 300,000	\$ 630,000
Accounts receivable	1,650,000	1.10	1,850,000		1,650,000
Inventories	1,000,000	1.10	1,100,000		1,100,000
	2,800,000		3,080,000	300,000	3,380,000
Property, plant and equipment	5,000,000	Historical	5,150,000		5,150,000
Less—Reserve for depreciation	1,100,000	See Note I	1,133,000		1,133,000
	3,900,000		4,017,000		4,017,000
Investment in subsidiary company				5,000,000 (2)	\$5,000,000
	6,700,000		7,097,000	5,300,000	7,397,000
Current Liabilities:					
Accounts payable	500,000	1.10	550,000		550,000
Accrued liabilities	100,000	1.10	110,000		110,000
Reserves for taxes	305,000	1.10	335,500		335,500
	905,000		995,500		995,500
Foreign exchange adjustment on conversion			274,500		274,500
Capital and Surplus:					
Capital stock	5,000,000	Note II	5,000,000	(2) 5,000,000	5,000,000
Surplus	\$ 795,000		\$ 827,000	300,000	1,127,000
	5,795,000		5,827,000	5,300,000	6,127,000
	\$6,700,000		\$7,097,000	\$5,300,000	\$7,397,000

STUDENTS' DEPARTMENT

NOTES ON CONVERSION OF FINANCIAL
STATEMENTS FROM UNITED STATES DOLLARS
TO CANADIAN DOLLARS

	United States dollars	Rate	Canadian dollars
NOTE I:			
Property, plant and equipment—			
As at 1st January 1941	\$4,500,000	Historical	\$4,600,000
Additions during year	500,000	1.10	550,000
As at 31st December 1941 ..	5,000,000	Historical	5,150,000
Reserve for depreciation—			
As at 1st January 1941	900,000	Historical	920,000
Provision during year	200,000	See below	213,000
As at 31st December 1941 ..	\$1,100,000	Historical	\$1,133,000

The reserve in United States dollars at 31st December 1941 is 11/50 of the asset. 11/50 of the asset in Canadian dollars is 11/50 x \$5,150,000 or \$1,133,000. The provision for the year in Canadian dollars is therefore \$213,000.

NOTE II:

The rate prevailing at the date the investment was made was par so the capital stock is converted at par.

NOTE III:

Some accountants prefer to convert dividends paid at the average rate of conversion of the profit and loss account which is \$1.12333. If this method were followed the difference of \$2,333 between the dividend paid and the dividend received would be charged to profit and loss as foreign exchange applicable to operations and there would be a corresponding increase in the "Foreign exchange adjustment on conversion". Another method sometimes followed is to convert that portion of the profits equal to the dividends paid at the dividend rate and this is accomplished by charging the difference (in this case \$2,333) to foreign exchange applicable to operations.

X COMPANY LIMITED
CONSOLIDATING JOURNAL ENTRIES
31ST DECEMBER 1941

	(1)	Dr.	Cr.
Dividends received		\$ 110,000	
To Dividends paid			\$ 110,000
To eliminate inter-company dividends.			
(2)			
Capital stock	5,000,000		
To Investment in capital stock ...			5,000,000
To eliminate investment in capital stock and apply it against capital stock account of subsidiary.			

X COMPANY LIMITED
AND SUBSIDIARY COMPANY
CONSOLIDATED BALANCE SHEET 31ST DECEMBER 1941
(Stated in Canadian currency)

ASSETS	
Current Assets:	
Cash on hand and in banks	\$ 630,000
Accounts receivable	1,650,000

THE CANADIAN CHARTERED ACCOUNTANT

Inventories	1,100,000	
		<u>\$3,380,000</u>
Property, plant and equipment	5,150,000	
Less—Reserve for depreciation	1,133,000	
		<u>4,017,000</u>
		<u><u>\$7,397,000</u></u>

LIABILITIES

Current Liabilities:		
Accounts payable	\$ 550,000	
Accrued liabilities	110,000	
Reserves for taxes	335,500	
		<u>\$ 995,500</u>
Foreign exchange adjustment on conversion		274,500
Capital and Surplus:		
Capital	5,000,000	
Surplus	1,127,000	
		<u>6,127,000</u>
		<u><u>\$7,397,000</u></u>

**X COMPANY LIMITED
AND SUBSIDIARY COMPANY
CONSOLIDATED STATEMENT OF PROFIT AND LOSS
AND EARNED SURPLUS
FOR THE YEAR ENDING 31ST DECEMBER 1941
(Stated in Canadian currency)**

<i>Item</i>	<i>Amount</i>	
Sales	\$8,800,000	
Cost of sales, excluding provision for depreciation:		
Inventory as at 1st January 1941	\$1,320,000	
Purchases and manufacturing expenses	6,600,000	
	<u>7,920,000</u>	
Inventory as at 31st December 1941	1,100,000	<u>6,820,000</u>
Gross profit before providing for depreciation		1,980,000
Expenses		<u>1,110,000</u>
		870,000
Provision for depreciation		<u>213,000</u>
		657,000
Provision for taxes on profits	330,000	
Withholding taxes on dividends	5,500	<u>335,500</u>
Net profit for the year		321,500
Surplus as at 1st January 1941		<u>905,500</u>
		1,227,000
Dividends paid		<u>100,000</u>
Surplus as at 31st December 1941 ..		<u><u>\$1,127,000</u></u>

